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Leonard Lorensen

AICPA

FINANCIAL REPORT SURVEY
FEBRUARY 1994

Illustrations of Financial Reporting by Entities in Reorganization Under the Bankruptcy Code

A Survey of the Application of
AICPA SOP 90-7

Leonard Lorensen, CPA

AMERICAN

INSTITUTE OF

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ACCOUNTANTS

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PREFACE

This publication is part of a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to publish periodically similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over twenty thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

Richard D. Walker
Director, Information Technology

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I

SCOPE AND PURPOSE OF THE SURVEY

This survey is intended primarily to help accountants apply AICPA Statement of Position (SOP) 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, which was issued by the Accounting Standards Executive Committee on November 19, 1990. SOP 90-7 provides guidance on financial reporting by entities that reorganize under Chapter 11 of title 11 of the U.S. Bankruptcy Code.

An entity enters reorganization under Chapter 11 by filing a petition with the Bankruptcy Court, which starts the reorganization proceeding. The goal of the proceeding is to maximize recovery by creditors and shareholders by preserving the entity as a going concern. For that purpose, the entity prepares a plan of reorganization intended to be confirmed by the court. The plan provides for treatment of all the assets and liabilities of the entity, which might result in forgiveness of indebtedness. The court may confirm a plan even if some classes of creditors or some of the stockholders have not accepted it, provided that it meets standards of fairness required by Chapter 11 to the dissenting creditors or stockholders.

SOP 90-7 distinguishes between financial reporting by the entity during the reorganization proceeding and financial reporting after the plan is confirmed by the court. The principal reporting problem during the proceeding is the measurement of liabilities subject to compromise. The principal reporting problem after the plan is confirmed is the allocation of the reorganization value to the assets of the entity.

Determining the appropriate accounting in accordance with SOP 90-7 for entities in reorganization under the Bankruptcy Code requires considerable judgment. An accountant of a business enterprise confronted with problems in applying the SOP can benefit from learning how other accountants are applying it in practice. Accordingly, this publication presents excerpts from thirty-four annual reports that illustrate the apparent application of the SOP in financial statements. The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented in this survey were selected from companies in the 1990–1991, 1991–1992, and 1992–1993 annual report files.

II

FINANCIAL REPORTING DURING REORGANIZATION PROCEEDINGS BEFORE FILING OF A REORGANIZATION PLAN

SOP 90-7 specifies the manner in which companies undergoing reorganization proceedings under Chapter 11 are to prepare financial statements during this time. The following excerpts from the financial statements of eleven companies illustrate the accounting required under the SOP. The examples are classified according to whether the bankruptcy applied to the parent company only, to the parent and subsidiaries, or to subsidiaries only. No plan of reorganization had yet been filed by any of the companies.

PARENT COMPANY ONLY

AMERICA WEST AIRLINES INC., DECEMBER 31, 1991

America West Airlines, Inc., D.I.P.
Balance Sheets
December 31, 1991 and 1990

	1991	1990
	(in thousands)	
Liabilities and Stockholders' Equity (Deficiency)		
. . . .		
Total current liabilities	259,587	345,809
Estimated liabilities subject to Chapter 11 proceedings (notes 2 and 4)	386,464	—

. . . .

America West Airlines, Inc., D.I.P.

Statements of Operations
Years ended December 31, 1991, 1990, and 1989
(in thousands of dollars except per share amounts)

	1991	1990	1989
. . . .			
Nonoperating income (expense):			
. . . .			
Reorganization expense, net (note 2)	(58,440)	—	—

. . . .

America West Airlines, Inc., D.I.P.
Notes to Financial Statements
December 31, 1991, 1990, and 1989

(1) Reorganization Under Chapter 11, Liquidity and Financial Condition

. . . .

As a consequence of higher fuel prices, reduced passenger yields and the inability to obtain additional funds through financing sources, the Company's liquidity and financial position were severely strained, and on June 27, 1991, the Company filed a voluntary petition (the "Chapter 11 filing") in the United States Bankruptcy Court for the District of Arizona (the "Bankruptcy Court") seeking to reorganize under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Company is operating as a debtor-in-possession under the supervision of the Bankruptcy Court. As a debtor-in-possession, the Company is authorized to operate its business but may not engage in transactions outside its ordinary course of business without the approval of the Bankruptcy Court.

Subject to certain exceptions under the Bankruptcy Code, the Company's filing for reorganization automatically enjoined the continuation of any judicial or administrative proceedings against the Company. Any creditor actions to obtain possession of property from the Company or to create, perfect or enforce any lien against the property of the Company are also enjoined. As a result, the creditors of the Company are precluded from collecting pre-petition debts without the approval of the Bankruptcy Court.

The Company has the exclusive right for 120 days after the Chapter 11 filing on June 27, 1991 to file a plan of reorganization and 60 additional days to obtain necessary acceptances of such plan. Such periods may be extended at the discretion of the Bankruptcy Court, but only on a showing of good cause, and extensions have been obtained such that the Company has until June 19, 1992 to file its plan of reorganization with the Court or obtain an additional extension. Subject to certain exceptions set forth in the Bankruptcy Code, acceptance of a plan of reorganization requires approval of the Bankruptcy Court and the affirmative vote (i.e. 50% of the number and 66⅔% of the dollar amount) of each class of creditors and equity holders whose claims are impaired by the plan. Alternatively, absent the requisite approvals, the Company may seek Bankruptcy Court approval of its reorganization plan, under "cramdown" provisions of the Bankruptcy Code, assuming certain tests are met. If the Company fails to submit a plan of reorganization and achieve acceptance thereof within the exclusivity period prescribed or any extensions thereof, any creditor or equity holder will be free to file a plan of reorganization with the Court and solicit acceptances thereof.

On March 13, 1992, the Company announced that its contemplated plan of reorganization, which is expected to be filed during the summer of 1992, will provide for a substantial investment by new equity investors in return for stock in the reorganized Company; the distribution of the reorganized Company's stock or a cash distribution to the Company's unsecured creditors; and the Company's employees being able to acquire equity in the reorganized Company. As a result, the Company anticipates that the value of common and preferred stock held by investors will be eliminated pursuant to the contemplated plan of reorganization. At this time, the Company cannot predict when or whether its contemplated plan of reorganization will be approved by its creditors and the Bankruptcy Court. If no plan is approved, it is possible that the Company could be forced to liquidate. In the event that liquidation is forced upon the Company, it is likely that the Company's unsecured creditors and equity holders will receive nothing from the net proceeds generated by liquidation.

The accompanying financial statements have been prepared on a going concern basis which assumes continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. As a result of the reorganization proceedings, there are significant uncertainties relating to the ability of the Company to continue as a going concern. To supplement the limited cash resources available to maintain its existing operations, a debtor-in-possession financing has been obtained by the Company (see note 4). The financial statements do not include any adjustments that might be necessary as a result of the outcome of the uncertainties discussed herein including the effects of any plan of reorganization.

Certain pre-petition liabilities have been paid after obtaining the approval of the Bankruptcy Court, including certain wages and benefits of employees, insurance costs, obligations to foreign vendors and governmental agencies, travel agent commissions and ticket refunds. The Company has also been allowed to honor all tickets sold prior to the date it filed for reorganization. In addition, the Company is authorized to pay pre-petition liabilities to essential suppliers of fuel, food and beverages and to other vendors providing critical goods and services. Subsequent to filing and with the approval of the Bankruptcy Court, the Company assumed certain executory contracts of essential suppliers.

Parties to executory contracts may, under certain circumstances, file motions with the Bankruptcy Court to require the Company to assume or reject such contracts. Unless otherwise agreed, the assumption of a contract will require the Company to cure all prior defaults under the related contract, including all pre-petition liabilities. Unless otherwise agreed, the rejection of a contract is deemed to constitute a breach of the agreement as of the moment immediately preceding Chapter 11 filing, giving the other party to the contract a right to assert a general unsecured claim for damages arising out of the breach. The Company is actively engaged in the process of reviewing its executory contracts and, except for the assumption of executory contracts for certain essential supplies (including aircraft and related equipment), final decisions with respect to assuming or rejecting the contracts and the approval of the Bankruptcy Court are still pending.

. . . .

February 28, 1992 was set as the last date for the filing of proof of claims under the Bankruptcy Code, and the Company's creditors have submitted claims for liabilities not paid and for damages incurred. There may be differences between the amounts at which any such liabilities are recorded in the financial statements and the amounts claimed by the Company's creditors. Significant litigation may be required to resolve any such disputes.

The Company will incur significant costs associated with the reorganization. The amount of these expenses, which are being expensed as incurred, is expected to significantly affect future results.

As a result of its filing for protection under Chapter 11 of the Bankruptcy Code, the Company is in default of substantially all of its debt agreements. All outstanding unsecured debt of the Company has been presented in these financial statements within the caption "Estimated liabilities subject to Chapter 11 proceedings."

Additional liabilities subject to the proceedings may arise in the future as a result of the rejection of executory contracts, including leases, and from the determination by the Bankruptcy Court (or agreement by parties in interest) of allowed claims for contingencies and other disputed amounts. Conversely, the assumption of executory contracts and unexpired leases may convert liabilities shown as subject to Chapter 11 proceedings to post-petition liabilities.

(2) Estimated Liabilities Subject to Chapter 11 Proceedings and Reorganization Expense

Under Chapter 11, certain claims against the Company in existence prior to the filing of the petitions for relief under the Code are stayed while the Company continues business operations as debtor-in-possession. These pre-petition liabilities are expected to be settled as part of the plan of reorganization and are classified in the December 31, 1991 balance sheet as "Estimated liabilities subject to Chapter 11 proceedings."

Estimated liabilities subject to Chapter 11 proceedings as of December 31, 1991 consisted of the following (*in thousands*):

Debt (including $144.5 million of convertible subordinated debentures)	$277,906
Accounts payable	85,017
Accrued interest	11,834
Accrued taxes	1,244
Other accrued liabilities	752
Manufacturers' and deferred credits	9,711
	$386,464

The debt balance included above consists of all unsecured obligations and other obligations that have not been affirmed by the Company through the Bankruptcy Court (see note 4).

Reorganization Expense. Reorganization expense is comprised of items of income, expense, gain or loss that were realized or incurred by the Company as a result of reorganization under Chapter 11 of the Federal Bankruptcy Code. Such items for 1991 consisted of the following (*in thousands*):

Loss on aircraft rejections	$35,203
Professional fees	8,531
D.I.P. financing issuance costs	2,660
Write-off of debt issuance costs	2,773
Employee termination and furlough costs	1,343
Loss on closed facilities	6,796
Interest income	(1,365)
Other	2,499
	$58,440

(3) Summary of Significant Accounting Policies

(a) Financial Reporting for Bankruptcy Proceedings

On November 19, 1990, the American Institute of Certified Public Accountants issued Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the

Bankruptcy Code" ("SOP 90-7"). SOP 90-7 provides guidance for financial reporting by entities that have filed petitions with the Bankruptcy Court and expect to reorganize under Chapter 11 of the Code.

SOP 90-7 recommends that all such entities report the same way while reorganizing under Chapter 11, with the objective of reflecting their financial evolution. To do that, their financial statements should distinguish transactions and events that are directly associated with the reorganization from those of the operations of the ongoing business as it evolves.

SOP 90-7 became effective for financial statements of enterprises that filed petitions under the Code after December 31, 1990, although earlier application was encouraged. The Company has implemented the guidance provided by SOP 90-7 in the accompanying December 31, 1991 financial statements.

Pursuant to SOP 90-7, prepetition liabilities are reported on the basis of the expected amounts of such allowed claims, as opposed to the amounts for which those allowed claims may be settled. Under an approved final plan of reorganization, those claims may be settled at amounts substantially less than their allowed amounts.

. . . .

CARTER HAWLEY HALE STORES INC., FEBRUARY 1, 1992

Carter Hawley Hale Stores, Inc.
(Debtor-in-Possession)
Consolidated Statement of Earnings
(in thousands except per share data)

	Year Ended,		Period Ended,	
	February 1, 1992 (52 Weeks)	February 2, 1991 (Unaudited) (52 Weeks)	February 2, 1991 (26 Weeks)	February 3, 1990 (Unaudited) (27 Weeks)
. . . .				
Earnings (loss) from operations before reorganization costs and income taxes	(32,035)	(85,920)	(46,740)	27,710
Reorganization costs	138,057	40,000	40,000	—
Earnings (loss) from operations before income taxes	(170,092)	(125,920)	(86,740)	27,710

. . . .

Carter Hawley Hale Stores, Inc.
(Debtor-in-Possession)
Consolidated Balance Sheet
(in thousands)

Consolidated Balance Sheet (continued)

	February 1, 1992	February 2, 1991
. . . .		
Liabilities and Shareholders' Equity		
. . . .		
Current liabilities		
. . . .		
	428,823	175,982
Liabilities subject to settlement under reorganization proceedings	598,321	598,650
. . . .		

Carter Hawley Hale Stores, Inc.
(Debtor-in-Possession)
Notes to Financial Statements

Summary of Significant Accounting Policies

Reorganizing and Basis Reporting. On February 11, 1991 (the "Petition Date"), Carter Hawley Hale Stores, Inc. (the "Company") filed a petition (the "Filing") under chapter 11 ("Chapter 11") of the Bankruptcy Code in United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"). The Company is managing its affairs and is operating its business under Chapter 11 as debtor in possession while a plan of reorganization is formulated.

Through a reorganization under Chapter 11, management intends to implement a program to restructure the operations and capitalization of the Company in order to strengthen the Company's financial position and operating performance. As part of this process, on March 16, 1992, the Company announced a plan for a comprehensive consolidation of all corporate, merchandising, marketing, operations, administration and support functions (the "Consolidation"), which is intended to significantly enhance the Company's operating performance.

The accompanying consolidated financial statements have been prepared on a going concern basis assuming the realization of assets and liquidation of liabilities in the ordinary course of business. However, under Chapter 11, actions to enforce certain claims against the Company are stayed if such claims arose, or are based on events that occurred, before the Petition Date. The terms of the ultimate settlement of these liabilities will be determined based upon a plan of reorganization to be confirmed by the Bankruptcy Court. Such liabilities are reflected in the Consolidated Balance Sheets as liabilities subject to settlement under reorganization proceedings. Additional liabilities subject to settlement may arise subsequent to the Petition Date as a result of claims filed by parties affected by the Company's rejection of executory contracts, including leases, and from the Bankruptcy Court's resolution of allowed rejection of executory contracts, including leases, and from the Bankruptcy Court's resolution of allowed claims for contingencies and other disputed amounts. During 1991, the Company endeavored to notify all known potential creditors of the Filing for the purpose of identifying all pre-petition date claims. Generally, creditors had until the November 29, 1991 "Bar Date" to file claims. The Company is actively negotiating with creditors to reconcile and resolve the balance of disputed claims totalling approximately $500 million. A significant portion of this amount is comprised of disputed claims that, in the opinion of management, will not result in additional liability to the Company.

During the fourth quarter of 1991, the Company recorded $25.0 million of additional liabilities for settlement of certain disputed prepetition trade claims. The additional liability, if any, relating to the remainder of outstanding disputed claims is not subject to reasonable estimation. Consistent with generally accepted accounting principles, the Company has not recognized any additional liabilities related to these claims. The Company will recognize additional liabilities, if any, relating to the outstanding disputed amounts as these amounts become subject to reasonable estimation. During the fourth quarter of 1991, the Company also recorded valuation adjustments to reflect the impact of the Reorganization Case on the Company's ability to realize certain assets. These amounts, totalling $9.0 million, are included in reorganization costs. In addition, a $40.0 million provision for store closing costs, including potential real and personal property lease termination penalties, was recognized in the Transition Period. Additional liabilities may arise as the Chapter 11 proceedings continue.

Actions to enforce claims secured by the Company's assets are also stayed. Based on current facts and circumstances, the Company's outstanding secured debt is not reflected as subject to settlement in the Consolidated Balance Sheets

On confirmation of a plan of reorganization, the Company expects to utilize "Fresh Start Accounting" in accordance with the guidelines for accounting for emergence from bankruptcy. Fresh Start Accounting is expected to result in a restatement of Company assets to reflect current values.

Certain amounts reported in prior years have been reclassified in the accompanying financial statements to conform to the current fiscal year presentation basis.

. . . .

Reorganization Costs

Professional fees and expenditures directly related to the Filing, together with costs incurred in connection with the Consolidation, have been segregated from normal operations and are disclosed separately. The major components of these costs are as follows:

(*in millions*)	Year Ended February 1, 1992 (52 Weeks)	Transition Period Ended February 2, 1991 (26 Weeks)
Provision for Consolidation	$65.0	$
Provision for store closing costs	—	40.0
Settlements of disputed claims and valuation adjustments	34.0	—
Professional fees and other expenditures directly related to the Filing	29.4	—
Write-off of unamortized debt issue costs on subordinated debentures	9.7	—
	$138.1	$40.0

The provision for Consolidation is comprised of the estimated costs for the comprehensive centralization of major management functions. The new management approach, which is expected to be implemented during 1992, will result in the consolidation of all corporate, merchandising, marketing, operations, administration, and support functions into a single organization. The Consolidation is expected to provide annual expense savings of $25 million to $30 million.

The store closing provision covers both the estimated costs to be incurred in closing certain stores and other facilities together with penalties to be incurred upon the rejection of related building and personal property leases.

The settlement of disputed claims and valuation adjustments includes the negotiated resolution of certain disputed prepetition trade claims and reduction in the carrying values of certain assets to reflect the impact of the Reorganization Case on the amounts to be realized for such assets.

Unamortized subordinated debt issue costs, which totaled $9.7 million as of the Petition Date, were charged to reorganization costs in the fourth quarter of the current year, as a result of the claims related to the debt being allowed by the Bankruptcy Court.

Liabilities Subject to Settlement Under Reorganization Proceedings

Liabilities subject to settlement under the reorganization proceedings have been separately classified and consist of the following:

(*in millions*)	February 1, 1992	February 2, 1991
Accounts payable	$194.8	$182.8
Accrued liabilities	53.5	75.6
Subordinated debt	—	—
12.25 percent Notes due 1996	125.0	125.0
12.5 percent Debentures due 1988–2002	225.0	225.0
Unamortized subordinated debt acquisition costs	—	(9.7)
	$598.3	$598.7

Actions to enforce liabilities subject to settlement are stayed while the Company is under the protection of the Bankruptcy Code. As part of the Chapter 11 reorganization process, the Company has endeavored to notify all known or potential creditors of the Filing for the purpose of identifying all pre-petition claims against the Company. Generally, creditors whose claims arose prior to the Petition Date had until the November 29, 1991 "Bar Data" to file claims or be barred from asserting claims in the future, except in instances of claims arising from the subsequent rejection of executory contracts by the Company, the Company's subsequent recovery of property transferred to claimants prior to February 11, 1991, and for claims related to certain other items including income taxes.

Consistent with the guidelines for accounting during a Chapter 11 reorganization, the Company has adjusted recorded liabilities to amounts allowable under the Bankruptcy Code. As a result, during the current year all unamortized debt issue costs relating to the Company's subordinated debt were charged to reorganization costs and an adjustment of $25 million was made to liabilities for settlement of certain disputed prepetition trade claims. The Company is actively negotiating with creditors to reconcile and resolve the balance of disputed claims totalling approximately $500 million. A significant portion of this amount is comprised of disputed claims that, in the opinion of management, will not result in additional liability to the Company. The additional liability, if any, relating to the remainder of outstanding disputed claims is not subject to reasonable estimation. As a result, no provision has been recorded for these claims. The Company will recognize the additional liability, if any, as these amounts become subject to reasonable estimation.

Additional bankruptcy claims and pre-petition liabilities may arise from the termination of other contractual obligations and the settlement of disputed claims. Consequently, the amount included in the Consolidated Balance Sheet as liabilities subject to settlement under reorganization proceedings may be subject to further adjustment.

EUA POWER CORPORATION, DECEMBER 31, 1991

EUA Power Corporation
Statement of (Loss)
Years ended December 31,
(Debtor-in-Possession)
(in thousands)

	1991	1990	1989
. . . .			
Operating Expenses:			
. . . .			
Reorganization Expenses	1,069		
. . . .			

EUA Power Corporation
Balance Sheet
December 31,
(Debtor-in-Possession)
(in thousands)

	1991	1990
. . . .		
Capitalization and Liabilities		
Capitalization:		
. . . .		
Long-Term Debt Not Subject to Compromise		300,597
Long-Term Debt Subject to Compromise	180,000	
Total Capitalization	160,208	300,597
Additional Liabilities Subject to Compromise:		
Long-Term Debt due within One Year	99,597	
Obligations Assumed and Paid by EUA	38,646	
Accounts Payable	432	
Interest Accrued	15,473	
Total Additional Liabilities Subject to Compromise	154,148	
Liabilities Not Subject to Compromise:		
Notes payable (Schedule IX)		16,477
Accounts Payable	832	234

Balance Sheet (continued)

	1991	1990
Taxes Accrued	7,165	4,582
Interest Accrued	286	6,877
Debtor-in-Possession Financing	9,068	
Unamortized Investment Tax Credits	2,457	2,726
Accumulated Deferred Taxes	24,894	34,427
Total Liabilities Not Subject to Compromise	44,702	65,323

. . . .

EUA Power Corporation
Notes to Financial Statements
December 31, 1991, 1990, and 1989

Note A — Business:

EUA Power is a New Hampshire corporation

. . . .

Note B — Bankruptcy Proceeding:

On February 28, 1991, EUA Power filed a voluntary petition in the Bankruptcy Court for protection under Chapter 11 of the Bankruptcy Code. EUA Power is now operating its business as a debtor-in-possession under the protection of the Bankruptcy Court and intends to continue its effort to market its entitlement to Seabrook Unit 1. EUA Power filed such petition because the cash generated by short-term sales of electricity would have been insufficient to pay interest on its outstanding Secured Notes when interest became due on May 15, 1991, and the prospects for signing long-term power sales contracts prior to that date were minimal.

On May 30, 1991, the Bondholders Committee filed a preference suit against EUA on behalf of EUA Power in Bankruptcy Court seeking to recover $38,452,500 plus interest in alleged preferential transfers from EUA Power to EUA. EUA Power cannot predict the outcome of this action.

On July 2, 1991, the Bankruptcy Court terminated EUA Power's exclusivity period with respect to filing a plan of reorganization. The Bondholders Committee has indicated that it may file a plan of reorganization which would convert the Secured Notes into all, or substantially all, of the equity of the Company. EUA Power cannot predict whether any plan, if filed, would be confirmed by the Bankruptcy Court. EUA Power will endeavor to develop or support a plan of reorganization acceptable to all parties, which would enable it to emerge from bankruptcy on a financially viable basis (although management of the Company cannot predict the timing or likelihood of developing such a plan).

. . . .

EUA Power's reorganization expenses are subject to approval by the Bankruptcy Court. For the period March 1, 1991 through October 31, 1991, professionals have submitted fees and expenses in the amount of approximately $1.6 million to the Bankruptcy Court for its approval, and the Bankruptcy Court has provisionally authorized, subject to its review at the conclusion of the Chapter 11 proceeding, payments of approximately $1.1 million. EUA Power has paid amounts provisionally approved by the Bankruptcy Court, and those are reflected on EUA Power's Statement of Loss for the twelve months ending December 31, 1991. In March 1992 professionals submitted additional fees and expenses to the Bankruptcy Court for its approval in the amount of approximately $1.0 million covering the period November 1, 1991 through February 29, 1992. Additional amounts may be recorded and paid, subject to Bankruptcy Court approval. EUA Power cannot predict what amount of professional fees and expenses will be finally allowed by the Bankruptcy Court.

Under Chapter 11, certain claims against EUA Power in existence prior to the filing of the petition for relief under the Bankruptcy Code are stayed while EUA Power continues business operations as debtor-in-possession. These claims are reflected in the Company's December 31, 1991 Balance Sheet as "Liabilities Subject to Compromise." Additional claims (Liabilities Subject to Compromise) may arise subsequent to the filing date resulting from rejection of executory contracts and from the determination by the Bankruptcy Court (or agreed to by parties in interest) of allowed Contingent and disputed claims. Enforcement of claims secured by certain of EUA Power's assets (secured claims) also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims, principally the Secured Notes, are secured by an interest in certain Seabrook Project assets of EUA Power, principally realty and personalty.

SPORTING LIFE INC., JULY 31, 1991

The Sporting Life, Inc.
(Debtor-in-Possession)
Consolidated Balance Sheets
July 31, 1991 and 1990

	1991	1990
. . . .		
Liabilities and Shareholders' Equity (Deficiency of Net Assets)		
. . . .		
Total current liabilities	1,085,973	3,066,656
Estimated liabilities subject to Chapter 11 reorganization proceedings (Note 2)	2,859,313	—
. . . .		

The Sporting Life, Inc. (Debtor-in-Possession)
Consolidated Statements of Operations
Years ended July 31, 1991, 1990, and 1989

	1991	1990	1989
. . . .			
Reorganization items (note 2):			

Consolidated Statements Of Operations (continued)

	1991	1990	1989
Professional fees	(83,230)	—	—
Interest earned on accumulated cash resulting from Chapter 11 proceeding	12,980	—	—
	(70,250)	—	—
Income (loss) before income taxes and extraordinary credit	(2,504,251)	(496,774)	317,564

. . . .

The Sporting Life, Inc.
(Debtor-in-Possession)
Notes to Consolidated Financial Statements
July 31, 1991, 1990, and 1989

2. Chapter 11 Reorganization

The Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code ("Chapter 11") on February 7, 1991. The Company is presently operating its business as a debtor-in-possession under Chapter 11 and is subject to the jurisdiction of the Bankruptcy Court. In a Chapter 11 case, substantially all liabilities as of the date of the filing of the petition for reorganization are subject to settlement under a plan of reorganization to be voted upon by the Company's impaired creditors and confirmed by the Bankruptcy Court. The Company continues to manage its affairs and operate its business as a debtor-in-possession, subject to the supervision of the Bankruptcy Court while the case is pending.

The principal categories of claims reclassified in the Consolidated Balance Sheets and included in "Estimated liabilities subject to Chapter 11 reorganization proceedings" are identified below. These amounts may be subject to future adjustments depending on Bankruptcy Court actions and further developments with respect to disputed claims. The ultimate amount of, and settlement terms for, such liabilities will be subject to a plan of reorganization, and accordingly, are not presently determinable.

Trade payables, merchandise	$1,254,087
Trade payables, non-merchandise	217,353
Catalog production liabilities	596,519
Demand note payable (secured) (Note 8)	742,743
Long-term debt (secured) (Note 8)	48,611
	$2,859,313

13. Business Conditions

As discussed in Note 2, the Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code ("Chapter 11") and is currently operating as a debtor-in-possession. The Company has not yet determined when it will submit its plan for reorganization. The Company does not have a post petition line-of-credit and most likely will not be able to secure such a line of credit until the Company emerges from Chapter 11. Although the Company has been able to meet its current operating needs through internally generated funds and working capital, the continued operations of the Company are dependent on its ability to secure financing and operate profitably. The Company has been exploring alternative sources of financing in order to provide the necessary cash flow should the need arise.

While management believes that the programs which have been initiated since the Company entered the Chapter 11 proceeding, particularly those effected since the end of fiscal year July 31, 1991, will enable the Company to convince the Bankruptcy Court that it can operate profitably in the future and to reach satisfactory arrangements with all pre-petition creditors, there can be no assurance that the creditors will agree to any proposal by the Company. Management is of the opinion that it has corrected the problems which led to the Chapter 11 filing, both in terms of personnel and merchandising programs, and has effected changes necessary to increase the Company's sales and operate profitably.

WIENER ENTERPRISES INC., FEBRUARY 1, 1992

Wiener Enterprises, Inc. and Subsidiary
(Debtor-in-Possession as of December 27, 1991)
Consolidated Balance Sheets

	February 1, 1992	January 26, 1991
. . . .		
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
. . . .		
Post petition liabilities and accrued expenses	5,111,000	—
Total current liabilities	5,206,000	7,004,000
. . . .		
Liabilities subject to compromise	5,251,000	—
. . . .		

Wiener Enterprises, Inc. and Subsidiary
(Debtor-in-Possession as of December 27, 1991)
Consolidated Statements of Operations

	Fiscal Year Ended,		
	February 1, 1992 (53 Weeks)	January 26, 1991 (52 Weeks)	January 27, 1990 (52 Weeks)
. . . .			

Consolidated Statements of Operations (continued)

	Fiscal Year Ended,		
	February 1, 1992 (53 Weeks)	January 26, 1991 (52 Weeks)	January 27, 1990 (52 Weeks)
Loss from continuing operations before reorganization items and income tax benefit	(3,207,000)	(1,591,000)	(689,000)
Reorganization items:			
Provision for rejected executory contracts	2,095,000	—	—
Estimated loss on disposal of assets	2,201,000	—	—
Other	875,000	—	—
	5,171,000	—	—
Loss from continuing operations before income tax benefit	(8,378,000)	(1,591,000)	(689,000)

. . . .

Wiener Enterprises, Inc. and Subsidiary
(Debtor-in-Possession as of December 27, 1991)
Notes to Consolidated Financial Statements

(1) Bankruptcy Proceedings and Restructuring

On December 27, 1991, Wiener Enterprises, Inc. (the "Company") filed a voluntary petition for reorganization under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Eastern District of Louisiana and is currently operating the business as Debtor-in-Possession under the supervision of the Bankruptcy Court.

As of the petition date, actions to collect prepetition indebtedness are stayed and other contractual obligations may not be enforced against the Company. In addition, under the Bankruptcy Code the Company may reject executory contracts, including lease obligations. Parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. Substantially all liabilities as of the petition date are subject to settlement under a plan of reorganization to be voted upon the creditors and equity security holders and approved by the Bankruptcy Court. The Company expects to file this plan in fiscal 1993.

In the event a plan of reorganization is approved by the Bankruptcy Court, continuation of the business after reorganization is dependent upon the success of future operations and the Company's ability to meet its obligations as they become due. The accompanying financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As a result of the reorganization proceedings, the Company may have to sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the financial statements. Further, a plan of reorganization could materially change the amounts currently recorded in the financial statements. The financial statements do not give effect to all adjustments to the carrying value of assets, or amounts and reclassification of liabilities that might be necessary as a consequence of these bankruptcy proceedings. The appropriateness of using the going concern basis is dependent upon, among other things, confirmation of a plan of reorganization, success of future operations, and the ability to generate sufficient cash from operations and financing sources to meet obligations.

The Company received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages and interest payments on its prepetition debt obligations. During fiscal 1992, the overall financial condition of the Company declined significantly and ultimately culminated in the bankruptcy filing. The decline was due in part to the continuation of a poor economy inadequate to fund appropriate inventory levels. These factors caused a significant decline in sales, a loss from operations and the violation of a number of loan covenants. Based on a review and assessment of its operations, the Company recorded a reorganization charge of $5,171,000 as of February 1, 1992. Such reorganization charge was comprised of (1) $4,371,000 related to provisions for losses on abandonment of fixed assets and for costs to dispose of non-performing stores, (2) $450,000 related to professional fees and severance pay relative to the bankruptcy filing and (3) $350,000 related to provisions for losses on pending litigation.

(7) Liabilities Subject to Compromise

Prepetition liabilities subject to compromise in the bankruptcy proceedings at February 1, 1992 are summarized as follows:

	February 1, 1992
Trade	$3,069,000
Other miscellaneous payables	1,281,000
Accrued interest	—
Accrued rent	269,000
Accrued other	632,000
Liabilities subject to compromise	$5,251,000

No payments can be made with respect to outstanding debt until the Bankruptcy Court has approved a plan of reorganization.

PARENT AND SUBSIDIARIES

COLUMBIA GAS SYSTEM INC., DECEMBER 31, 1991

The Columbia Gas System, Inc. and Subsidiaries
Statements of Consolidated Income
Year ended December 31 (in millions)

	1991(*)	1990	1989
. . . .			
Operating Income (Loss)	(1,086.4)	262.1	62.5
Other Income (Deductions)			
. . . .			

(*) Reference is made to Notes 1A and 2 of Notes to Consolidated Financial Statements.

Statements of Consolidated Income (continued)

	1991(*)	1990	1989
Interest income and other, net (Note 14)	32.4	70.3	55.5
Interest expense and related charges(†) (Note 15)	(137.4)	(169.8)	(202.9)
Reorganization items, net (Note 2)	(14.4)	—	—
Total Other Income (Deductions)	(119.4)	(99.5)	(147.4)
Income (Loss) before Income Taxes and Cumulative Effect of Accounting Changes	(1,205.8)	162.6	215.1

. . . .

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

The Columbia Gas System, Inc. and Subsidiaries
Consolidated Balance Sheets
as of December 31 (in millions)

	1991(*)	1990
. . . .		
Capitalization and Liabilities		
. . . .		
Current Liabilities		
Debtor-in-possession financing (Note 12)	136.0	—
. . . .		
Total Current Liabilities	826.8	1,932.8
Liabilities Subject to Chapter 11 Proceedings (Note 2)	3,903.5	—

. . . .

(*) Reference is made to Notes 1A and 2 of Notes to Consolidated Financial Statements.
(†) $83.5 million interest expense has not been recorded in 1991 (based upon rates in effect at the time of the bankruptcy filing (Note 2)).

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. Principles of Consolidation.

. . . .

On July 31, 1991, the Corporation and its wholly owned subsidiary, Columbia Gas Transmission Corporation (Columbia Transmission), filed separate petitions seeking protection under Chapter 11 of the Federal Bankruptcy Code. The debtor companies are operating their businesses as debtors-in-possession (DIP) under the jurisdiction of the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court). As such, the debtor companies cannot engage in transactions considered to be outside the ordinary course of business without obtaining Bankruptcy Court approval. (See Note 2.)

The accompanying financial statements reflect all adjustments necessary in the opinion of management to present fairly the results of operations in accordance with generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and payment of liabilities in the ordinary course of business. As a result of the reorganization proceedings under Chapter 11, the debtor companies may take, or be required to take, actions which may cause assets to be realized, or liabilities to be liquidated, for amounts other than those reflected in the financial statements. The appropriateness of continuing to present financial statements on a going concern basis is dependent upon, among other things, the terms of the ultimate plan of reorganization, future profitable operations, the ability to comply with DIP and other financing agreements and the ability to generate sufficient cash from operations and financing sources to meet obligations.

Certain reclassifications have been made to the 1990 and 1989 financial statements to conform to the 1991 presentation.

. . . .

2. Reorganization Proceedings Under Chapter 11 of the Bankruptcy Code

Under the Bankruptcy Code, actions by creditors to collect prepetition indebtedness are stayed and other contractual obligations may not be enforced against either the Corporation or Columbia Transmission. As debtors-in-possession, both the Corporation and Columbia Transmission have the right, subject to Bankruptcy Court approval and certain other limitations, to assume or reject executory contracts and unexpired leases. In this context, "rejection" means that the debtor companies are relieved from their obligations to perform further under the contract or lease but are subject to a claim for damages for the breach thereof. Any damages resulting from rejection are treated as general unsecured claims in the reorganization. The parties affected by these rejections may file claims with the Bankruptcy Court in accordance with bankruptcy procedures. Prepetition claims which were contingent or unliquidated at the commencement of the Chapter 11 proceeding are generally allowable against the debtor-in-possession in amounts fixed by the Bankruptcy Court. Substantially all liabilities as of the petition date are subject to resolution under a plan of reorganization to be approved by the Bankruptcy Court after submission to any required vote by affected parties. The Corporation's reorganization plan also requires approval by the Securities and Exchange Commission (SEC). The accompanying consolidated balance sheet includes approximately \$3.9 billion of liabilities subject to the Chapter 11 proceedings of the Corporation and Columbia Transmission as follows:

($ in millions)

The Columbia Gas System, Inc. (primarily debt obligations)	2,385.4
Columbia Transmission (excluding 1,837.9 payable to affiliates)	1,518.1
	3,903.5

Prepetition obligations of the Corporation primarily represent debentures, bank loans and commercial paper outstanding on the filing date together with accrued interest to that date (See Note 12 for additional information). The Corporation's plan of reorganization (which will be influenced by the plan of Columbia Transmission) will address the resolution of these liabilities. Both the Corporation and Columbia Transmission have received approval from the Bankruptcy Court to extend the time period within which they have the exclusive right to file plans of reorganization to March 30, 1992.

Columbia Transmission's prepetition obligations include secured and unsecured debt payable to the Corporation, estimated supplier obligations, estimated rate refunds, accrued taxes and other trade payables and liabilities. Substantial uncertainty exists regarding the measurement of certain of these liabilities, and ongoing Bankruptcy Court proceedings could result in the reclassification of certain liabilities currently subject to Chapter 11 proceedings.

The Bankruptcy Court established March 18, 1992, as the deadline (the bar date) for creditors to file claims against the Corporation and Columbia Transmission other than claims by Federal and state environmental agencies. On January 7, 1992, notices were mailed to the creditors of the Corporation and Columbia Transmission advising them that claims against either company must be submitted by the "bar date". Creditors who are required to file claims but fail to meet the deadline are forever barred from voting upon or receiving distributions under any plan of reorganization.

A substantial amount of Columbia Transmission's liabilities subject to Chapter 11 proceedings relate to amounts owed to the Corporation. Columbia Transmission's borrowings have been funded by the Corporation on a secured basis since June 1985. Under an Inventory Financing Agreement, the Corporation agreed to lend Columbia Transmission up to $410 million, which was the amount outstanding on the petition date. The loan is secured by Columbia Transmission's gas in underground storage. In addition, substantially all of Columbia Transmission's other assets have been pledged to the Corporation as security for First Mortgage Bonds issued by Columbia Transmission to the Corporation. On the petition date, the principal amount of the First Mortgage Bonds outstanding was $930.4 million. In addition to these secured claims, the Corporation has an unsecured claim against Columbia Transmission in the amount of $343.9 million in the form of installment notes issued prior to 1985. Creditors of Columbia Transmission have indicated that they intend to challenge the status of the $1.7 billion of debt securities held by the Corporation, as well as intercompany transfers related to interest and dividend payments of approximately $500 million to the Corporation.

Creditors of Columbia Transmission have also indicated a prepetition property transfer from Columbia Transmission to Columbia Natural Resources will be challenged on the basis of fraudulent conveyance under the Bankruptcy Code. The exploration and production properties of Columbia Natural Resources have a reserve value of $348 million (utilizing SEC standardized measurement procedures) as of December 31, 1991, a significant portion of which is attributable to the transfer from Columbia Transmission.

Management believes that the Corporation's position on these transactions will be upheld by the Bankruptcy Court; however, the ultimate outcome of these issues is uncertain at this stage of the proceedings.

The issues discussed in the preceding paragraphs have significant impact on the value of the estate of Columbia Transmission and therefore on amounts available for unsecured creditors. Resolution of these issues (and resolution of the producer contract damage issues discussed in Note

6) will determine in large part the cost of ending Columbia Transmission's bankruptcy proceeding. Because of the uncertainty regarding this cost, the Corporation is evaluating the economics of ultimate retention of Columbia Transmission and available financing alternatives, including capital markets, bank financing and asset disposition.

There are other significant issues which will arise as a result of the bankruptcies of the debtor companies, including:

a. the interrelationship of the Federal Energy Regulatory Commission (FERC) and Bankruptcy Court jurisdiction and authority in the case of Columbia Transmission;

b. the impact of the Corporation's bankruptcy on pending subsidiary transactions involving financial credit support from the Corporation; and

c. the measure of damages arising from Columbia Transmission's rejection of numerous burdensome contractual obligations, and the status of prepetition intercompany receivables and payables.

Resolution of these and other complex issues are expected to result in substantial legal and other professional fees and expenses. During 1991, the Corporation and Columbia Transmission have incurred the following expenses associated with professional fees and related expenses partially offset by interest income earned on cash accumulated from the suspension of payments related to prepetition liabilities (See Note 12):

($ in millions)

Professional fees and related expenses	18.8
Interest income on accumulated cash	(4.5)
Other reorganization items	0.1
Net Reorganization Items	14.4

The Corporation's Board of Directors suspended the payment of dividends on the Corporation's common stock on June 19, 1991. In addition, the Corporation has discontinued payments related to debt service on obligations existing at the time of the Chapter 11 filing. Columbia Transmission has suspended dividend and interest payments and debt repayments to the Corporation. The Corporation and Columbia Transmission have also suspended the payment of most other prepetition obligations. Management cannot predict at this time when or whether any financial restructuring plans will be approved or what provisions such plans, if any, would contain as related to the resumption of dividends, debt service and other payments. Provisions of the plan of reorganization for Columbia Transmission cannot yet be determined, and since the ultimate plan of reorganization of the Corporation depends in part on the value ascribed to Columbia Transmission and the ultimate value of the securities of Columbia Transmission owned by the Corporation, provisions of the Corporation's plan also cannot yet be determined. Provisions of such plans, or the inability by the Corporation and/or Columbia Transmission to obtain approval of a plan, could have a material adverse effect on the Corporation and its subsidiaries and on the rights of shareholders and holders of debt and other obligations.

Due to the Chapter 11 filing, the Internal Revenue Service has advised the Corporation that it has accelerated its examination of all open years, and has indicated disallowances will be substantial in amount. Management believes appropriate reserves have been established.

Condensed financial information of the Debtor Companies as of and for the year ended December 31, 1991, is as follows:

($ in millions)	Corporation	Columbia Transmission
Current assets	1,260.7	1.188.8[*]
Current liabilities	(174.6)	(286.7)
Working capital	1,086.1	902.1
Noncurrent assets	2,314.5	2,085.2
Estimated liabilities subject to Chapter 11 proceedings	(2,390.3)	(3,355.3)
Noncurrent liabilities	(3.4)	(113.4)
Net Equity	1,006.9	(481.4)
Operating revenues	—	1,003.5
Operating expenses	9.5	2,213.0
Operating loss	(9.5)	(1,209.5)
Other deductions	(644.6)	(133.8)
Income taxes	36.4	(463.3)
Cumulative effect of changes in accounting	(3.9)	50.5
Net Loss	(694.4)	(829.5)

[*] Includes $386.5 million of cash and temporary cash investments.

Information related to additional aspects of the Corporation's and Columbia Transmission's Chapter 11 proceeding is included in other notes.

EAGLE-PICHER INDUSTRIES INC., NOVEMBER 30, 1991

Consolidated Statement of Income (Loss)
Eagle-Picher Industries, Inc.
Years ended November 30
(in thousands of dollars, except per share)

	1991	1990	1989
. . . .			
Income (Loss) Before Reorganization Items and Taxes	(788)	44,060	56,314
Reorganization Items	(12,124)	—	—
Income (Loss) Before Taxes	(12,912)	44,060	56,314

. . . .

Consolidated Balance Sheet
Eagle-Picher Industries, Inc.
November 30
(in thousands of dollars)

	1991	1990

(in thousands of dollars)

	1991	1990
. . . .		
Liabilities and Shareholders' Equity (Deficit)		
. . . .		
Total Current Liabilities	74,489	242,980
Long-Term Debt, less current portion	32,001	3,618
Other Long-Term liabilities	4,521	3,238
Liabilities Subject to Compromise	476,009	—
Asbestos Liability, less current portion	—	335,341
Shareholders' Equity (Deficit)		
. . . .		

Notes to Consolidated Financial Statements

A. Proceedings Under Chapter 11

On January 7, 1991 (the "petition date"), Eagle-Picher Industries, Inc. (the "Company"), and seven of its subsidiaries, each filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code ("chapter 11") with the United States Bankruptcy Court for the Southern District of Ohio, Western Division, in Cincinnati, Ohio (the "Bankruptcy Court"). Each filing entity is currently operating its business as a debtor in possession in accordance with the provisions of the Bankruptcy Code.

The chapter 11 filings were the consequence of a cash shortfall resulting from the Company's inability to satisfy certain immediate asbestos litigation liabilities. As a result of the chapter 11 filings, substantially all litigation pending against the Company as of the petition date is stayed and no party may take any action to recover a pre-petition claim except pursuant to further order of the Bankruptcy Court. In addition, the Company may reject pre-petition executory contracts and unexpired leases with approval of the Bankruptcy Court. Parties affected by these rejections may file pre-petition claims with the Bankruptcy Court. The Company anticipates that substantially all liabilities as of the petition date, other than the pre-petition secured bank debt as described in Note G, will be dealt with in a plan of reorganization which will be proposed and voted on in accordance with the provisions of chapter 11.

An unsecured creditors' committee, an injury claimants' committee, an equity security holders' committee and a future claimants' representative have been appointed by the Bankruptcy Court. An unofficial asbestos co-defendants' committee has also been participating in the bankruptcy cases. In accordance with the provisions in the Bankruptcy Code, these parties have the right to be heard with respect to transactions outside the ordinary course of business. The official committees and legal representative also will be the primary entities with which the Company will negotiate the terms of a plan of reorganization. The Bankruptcy Court has approved two extensions of the period during which the Company has the exclusive right to file a reorganization plan. The most recent extension expires May 1, 1992.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the chapter 11 filings, such realization of assets and liquidation of liabilities are subject to uncertainty. While under the protection of chapter 11, in the normal course of business the Company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of a plan of reorganization. The appropriateness of using the going concern basis is dependent upon, among other things, confirmation of a plan of reorganization and the Company's ability to comply with existing debtor-in-possession financing agreements which have been approved by the Bankruptcy Court.

Substantially all of the Company's pre-petition debt was placed in default because of the chapter 11 filings. Accordingly, all debt for legal entities in chapter 11 was classified as current as of November 30, 1990.

F. Liabilities Subject to Compromise

Liabilities recorded by the Company as of the petition date that are expected to be compromised under a plan of reorganization are separately classified in the Consolidated Balance Sheet and include the following at November 30, 1991 (*in thousands of dollars*):

Asbestos liability	$365,654
Long-term debt (unsecured portion)	61,742
Accounts payable	39,421
Accrued liabilities	9,192
	$476,009

At the Company's request, the Bankruptcy Court established a bar date of October 31, 1991 for all pre-petition claims against the Company other than those arising from the sale of asbestos-containing products and those arising from any future rejection of executory contracts or unexpired leases in the chapter 11 cases. A bar date is the date by which claims against the Company must be filed if the claimants wish to receive any distribution in the chapter 11 cases. The Company has notified all known or potential claimants subject to the October 31, 1991 bar date of their need to file a proof of claim with the Bankruptcy Court. The Bankruptcy Court also granted the Company's motion for the establishment of a bar date for all asbestos-related claims. However, the date has not yet been established and the injury claimants' committee has appealed the decision.

Approximately 5,600 proofs of claim have been filed in connection with the October 31, 1991 bar date, and the Company has begun reconciling claims that differ from the Company's records. Any remaining differences that cannot be resolved by negotiated agreement between the Company and the claimant will be resolved by the Bankruptcy Court.

Certain creditors have filed claims substantially in excess of amounts reflected in the Company's records. Consequently, the amount included in the Consolidated Balance Sheet at November 30, 1991 as liabilities subject to compromise may be subject to adjustment. See Note N for further information regarding these claims.

P. Reorganization Items

The net expense resulting from the Company's chapter 11 filings has been segregated from expenses related to ordinary operations in the accompanying consolidated financial statements and includes the following for the year ended November 30, 1991 (*in thousands of dollars*):

Professional fees	$ 9,584
Employee retention plan	1,500
Debt financing costs	1,397
Other expenses directly related to bankruptcy	1,259
Interest income	(1,616)
	$12,124

Interest income is attributable to the accumulation of cash and short-term investments subsequent to the petition date.

HEALTHCARE INTERNATIONAL INC., JUNE 30, 1992

Healthcare International, Inc. and Subsidiaries
(Debtor-in-Possession)
Consolidated Statements of Operations
(dollars in thousands except per share amounts)

	Year Ended June 30,		
	1992	1991	1990
. . . .			
Loss before bankruptcy expenses	(6,924)	(32,583)	(36,157)
Bankruptcy expenses			
Professional fees	1,677	—	—
Financing fees	335	—	—
Write-off unamortized debt expense	721	—	—
Interest earned on accumulated cash	(594)	—	—
Gain on settlement of leases	(173)	—	—
Total bankruptcy expenses	1,966	—	—
Loss before income taxes	(8,890)	(32,583)	(36,157)

. . . .

Healthcare International, Inc. and Subsidiaries
(Debtor-in-Possession)
Consolidated Balance Sheets
(dollars in thousands)

	June 30,	
	1992	1991
. . . .		
Liabilities and Stockholders' Deficit		
. . . .		
Total current liabilities	21,610	212,713
Liabilities subject to compromise	232,592	—

. . . .

Healthcare International, Inc. and Subsidiaries
(Debtor-in-Possession)
Notes to Consolidated Financial Statements

Note A — Proceedings Under Chapter 11

On November 4, 1991 Healthcare International, Inc. ("HII") filed a voluntary petition for bankruptcy protection under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Western Division of Texas (the "Bankruptcy Court"). Simultaneous with the filing, or shortly thereafter, five subsidiaries also filed for relief under Chapter 11. On February 3, 1992, after notification from their landlord of termination of their building leases, two hospital related subsidiaries filed for protection under Chapter 11. On July 20, 1992, the Company's remaining 49 subsidiaries not yet in bankruptcy filed for protection under Chapter 11. The cases of HII and all of its subsidiaries that are in Chapter 11 are being jointly administered. The Company is presently operating its businesses as a debtor-in-possession under Chapter 11 and is subject to the jurisdiction and supervision of the Bankruptcy Court. Six of the Company's non-operational subsidiaries filed Chapter 7 petitions during 1992.

On June 19, 1992, the Company and HealthVest, the real estate investment trust which is the lessor or mortgagee of the majority of the Company's facilities, filed a Joint Plan of Reorganization. On June 30, 1992, Greenery Rehabilitation Group, Inc. ("Greenery"), a creditor and holder of a majority of the Class B common stock of the Company, assumed control of the Company by electing two of its representatives to the Company's three-member Board of Directors. Subsequent to the appointment of the new board members, the Joint Plan of Reorganization was withdrawn.

. . . .

At this time it is not possible to predict the length of time the Company will operate under protection of bankruptcy proceedings or the outcome for pre-petition creditors and equity security holders.

As a chapter 11 debtor, the Company, subject to Bankruptcy Court approval, may liquidate or settle liabilities for amounts less than 100% of their face value. The principal categories of claims classified in the consolidated balance sheets as "liabilities subject to compromise" are identified below. All amounts below may be subject to future adjustments depending on Bankruptcy Court actions, developments with respect to disputed claims, whether or not such claims are secured and the value of any collateral securing such claims, or other events.

Liabilities Subject to Compromise	*(in thousands)* June 30, 1992
HealthVest mortgages	$104,600
HealthVest notes	41,836
$14\frac{3}{8}$% subordinated debentures	29,250
Trade payables and accrued expenses	22,172
Interest payable	19,002
Income tax reserve	12,827
Preferred dividends payable	2,043
Capitalized leases	862
Total	$232,592

Note B — Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities, except as otherwise disclosed, in the normal course of business. However, as a result of the Chapter 11 filings and circumstances relating to this event, including the Company's recurring losses from operations and inability to service its debt and lease obligations, such realization of assets and liquidation of liabilities is subject to significant uncertainty. Further, the Company's ability to continue as a going concern is dependent upon the confirmation of a plan of reorganization by the Bankruptcy Court, achievement of profitable operations and the ability to generate sufficient cash from operations and financing sources to meet the restructured obligations. Except as otherwise disclosed, the consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern except as otherwise disclosed. The financial statements for the year ended June 30, 1992, reflect accounting principles and practices set forth in AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," which the Company adopted as of November 4, 1991, the date of the Company's Chapter 11 filing (see Note A).

LIONEL CORPORATION, JANUARY 25, 1992

The Lionel Corporation and Subsidiaries (Debtors-in-Possession)
Consolidated Statement of
Operations and Retained Earnings (Deficit)
(in thousands, except per share amounts)

	Fiscal Year Ended,		
	January 25, 1992	January 26, 1991	January 27, 1990
. . . .			
Income (loss) before reorganization costs and income taxes	(53,809)	(11,163)	525
Reorganization costs	61,483	—	—
Income (loss) before income taxes	(115,292)	(11,163)	525
. . . .			

The Lionel Corporation and Subsidiaries (Debtors-in-Possession)
Consolidated Balance Sheet
(in thousands, except per share amounts)

	January 25, 1992	January 26, 1991
. . . .		
Liabilities and Stockholders' Equity (Deficit)		
Liabilities not subject to compromise:		
. . . .		
Total liabilities not subject to compromise	48,719	156,964
Liabilities subject to compromise	135,467	—
. . . .		

The Lionel Corporation and Subsidiaries (Debtors-in-Possession)
Notes to Consolidated Financial Statements

Note A — Chapter 11 Proceedings:

On June 14, 1991, The Lionel Corporation ("Lionel") and its principal operating subsidiary, Lionel Leisure, Inc., ("Lionel Leisure," and collectively with Lionel, the "Debtors"), filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") for reorganization under Chapter 11 of the Bankruptcy Code. The Debtors are authorized to continue to operate their business as debtors-in-possession and are subject to the jurisdiction and supervision of the Bankruptcy Court. In the Chapter 11 cases, substantially all liabilities as of the date of the filing of the petitions for reorganization are subject to settlement under a plan or plans of reorganization to be voted upon by the Debtors' impaired creditors and shareholders and confirmed by the Bankruptcy Court. The ultimate amount and settlement terms for such liabilities are subject to a plan or plans of reorganization, and accordingly, are not presently determinable. The claims negotiation process is further described in Note G.

Under the Bankruptcy Code, the Debtors may elect to assume or reject real estate leases, employment contracts, personal leases, service contracts and other unexpired executory prepetition contracts, subject to Bankruptcy Court approval. The accompanying consolidated financial statements reflect (under Liabilities Subject to Compromise) a provision for certain leases that the Debtors have rejected or anticipate rejecting. The Debtors cannot presently determine or reasonably estimate the ultimate liability which may result from the filing of claims for all contracts which may be rejected. Accordingly, the accompanying consolidated financial statements do not contain all adjustments with respect to other claims, such as claims in respect of prepetition contracts which may be rejected, or for other reorganization costs, each of which could be material.

The consolidated financial statements of The Lionel Corporation and its subsidiaries (the "Company") were prepared on the basis of principles of accounting applicable to a going concern, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filings and circumstances relating to this event, including the losses from operations and reorganization costs as reflected in the Consolidated Statement of Operations, resulting in a cumulative stockholders' deficit at January 25, 1992, such realization of assets and liquidation of liabilities is subject to significant uncertainty. In the Chapter 11 proceedings (subject, in certain circumstances, to Bankruptcy Court approval), the Debtors may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the consolidated financial statements. The amounts reported in the consolidated financial statements do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might result as a consequence of actions taken pursuant to a plan of reorganization, which adjustments could be material. The continuation of the Company as a going concern is contingent upon, among other factors, the ability of the Debtors to (1) formulate and file a plan which will gain the approval of the creditors, shareholders, and other parties in interest and confirmation of the Bankruptcy Court; (2) maintain debtor-in-possession financing; (3) achieve profitable operations; (4) obtain adequate shipments of merchandise from suppliers at acceptable credit terms; and (5) obtain adequate post reorganization financing. Although there can be no assurances that the above conditions can be met, management believes that the Debtors have the ability to satisfy these conditions.

Note B — Summary of Significant Accounting Policies:

Consolidation: . . . . As described in Note A, on June 14, 1991, The Lionel Corporation and Lionel Leisure, Inc. filed for reorganization under Chapter 11 of the Bankruptcy Code. The other subsidiaries of The Lionel Corporation have not filed for bankruptcy protection. Net assets of these wholly owned subsidiaries at January 25, 1992, excluding net intercompany receivables of $89,073,000, were $149,000.

. . . .

Note G — Liabilities Subject to Compromise:

As described in Note A, since June 14, 1991 the Debtors have been operating as debtors-in-possession under Chapter 11 and are subject to the jurisdiction and supervision of the Bankruptcy Court. In the Chapter 11 cases, substantially all liabilities of the Debtors as of the date of the filing of the petitions for reorganization will be subject to settlement under the plan or plans of reorganization.

Schedules were filed with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the filing date as recorded in the Debtors' accounting records. Claimants could file claims until various bar dates set by the Court. Differences between amounts shown by the Debtors and claims filed by the creditors are currently being investigated. After completion of reconciliations, any remaining differences may be resolved by negotiated agreement between the Debtors and the claimant or by the Bankruptcy Court as part of the Chapter 11 proceedings or otherwise.

Under the Bankruptcy Code, the Debtors may elect to assume or reject real estate leases, employment contracts, personal property leases, service contracts and other unexpired executory prepetition contracts, subject to Bankruptcy Court approval. The accompanying consolidated financial statements reflect a provision of $19,542,000 for leases (principally consisting of real estate leases) which the Debtors have rejected or anticipate rejecting.

The principal categories of claims included in Liabilities Subject to Compromise in the Consolidated Balance Sheet effective June 14, 1991 are set forth below:

Liabilities subject to compromise:

(in thousands)

	January 25, 1992
Priority tax claims	$ 1,915
Trade and other claims	56,037
Lease rejection damages (Notes A and F)	19,542
Subordinated debt (Notes B and C)	57,973
	$135,467

These amounts represent management's best estimate of all known or potential claims. Such claims remain subject to future adjustments depending on negotiations and actions of the Bankruptcy Court in the Chapter 11 cases, further developments with respect to disputed claims, whether or not such claims are secured, and the value of any security interests securing any of such claims or other events. Priority tax claims will be settled subject to the provisions of the Bankruptcy Code and in accordance with the terms of the plan or plans of reorganization.

Note L — Reorganization Costs:

The net costs resulting from the Company's Chapter 11 filings and subsequent reorganization efforts have been segregated from ordinary operations in the Consolidated Statement of Operations. The charges attributable to reorganization efforts are as follows:

(in thousands)

	Fiscal Year Ended January 25, 1992
Restructuring costs	$34,531
Lease rejection damages (Note G)	19,542
Financing costs	2,493
Professional fees	2,939
Other miscellaneous costs	1,978
	$61,483

Restructuring costs include costs and expenses from closing of facilities, consolidation of operations and losses from the disposition of related assets. Financing costs comprise the write-off of the unamortized portion of costs previously deferred in conjunction with the subordinated debentures ($1,568,000) and certain commitment fees associated with the DIP facility.

Subsequent to the Chapter 11 filings, the Company began restructuring its business and decided among other things to permanently close 24 stores and 3 distribution centers. Fiscal 1992 operating results of these stores and distribution centers prior to the Chapter 11 filings (net sales of $15,552,000) were included in Loss before Reorganization Costs and Income Taxes in the Consolidated Statement of Operations. The effects of restructuring, including store operating results of the "Going Out of Business" sales (net sales of $22,717,000), inventory markdowns to liquidation values, property, plant and equipment writedowns and severance payments were classified as Reorganization Costs in the Consolidated Statement of Operations.

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SOLITRON DEVICES INC., FEBRUARY 29, 1992

Notes to Consolidated Financial Statements

1. Petition in Bankruptcy:

On January 24, 1992, Solitron Devices, Inc. and its wholly-owned subsidiary, Solitron Microwave, Inc. (collectively, the "Petitioner") filed a voluntary petition in the United States Bankruptcy Court for the Southern District of Florida seeking to reorganize under Chapter 11 of the Federal Bankruptcy Code. The Petitioner was authorized to continue in the management and control of its business property as debtor-in-possession under the Bankruptcy Code. The Petitioner has not yet finalized a Plan of Reorganization.

The consolidated financial statements of Solitron Devices, Inc. and subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which contemplate, among other things, realization of assets and payment of liabilities in the normal course of business and do not purport to reflect or provide for all consequences of the Petitioner's ongoing Chapter 11 proceedings. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities or the effects on existing stockholders' equity that may result from any plans, arrangements or other actions arising from the aforementioned proceedings, or the inability of the Company to continue as a going concern, because the eventual outcome of the matter referred to in the preceding paragraph is not presently determinable.

The continuation of operations of the Company is dependent upon its ability to operate profitably and generate sufficient cash from operations or other sources to effectuate a Plan of Reorganization that will meet ongoing obligations over a sustained period, continue normal credit terms with its suppliers, obtain adequate financing for future needs and obtain the required approvals of creditors and the Bankruptcy Court of a Plan of Reorganization.

The Bankruptcy Code allows the debtor-in-possession to either assume or reject certain liabilities, leases or other executory contracts subject to court approval. In addition, upon the formation of a Plan of Reorganization, other potential adjustments to asset values or accrual of liabilities could result from potential asset sales or liquidation of liabilities at amounts different than presently reflected in the accompanying consolidated financial statements. At the present time it is not possible to estimate with any degree of certainty the ultimate adjustment to assets or liabilities which may result from any such potential adjustments.

SUBSIDIARIES ONLY

MARCADE GROUP INC., FEBRUARY 1, 1992

The Marcade Group Inc. and Subsidiaries
Notes to Consolidated Financial Statements

3. Acquisitions

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On July 31, 1989, the Company acquired all of the outstanding stock of RJMJ for $9,300,000 in cash. On October 26, 1990 the Company negotiated the favorable cancellation of $2,650,000 owed to the selling shareholder of RJMJ. This debt forgiveness has been accounted for as a reduction in the original purchase price. RJMJ was served on June 21, 1991 with an involuntary bankruptcy petition filed against it on June 17, 1991 in the United States Bankruptcy court for the Southern District of New York requesting an order for relief under Chapter Seven of the U.S. Bankruptcy Code. On August 14, 1991, the RJMJ bankruptcy case was converted to a Chapter 11 reorganization proceeding. There are no assurances that a Chapter 11 plan can be approved or implemented.

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4. Disposal of Certain Operating Units

On January 11, 1991 and March 24, 1991 the Company's Board of Directors approved plans whereby RJMJ and Marlene would cease taking new orders and would sell their remaining inventory in the ordinary course of business. This plan includes the closing of most of the plants operated by these two subsidiaries.

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III

FINANCIAL REPORTING DURING REORGANIZATION PROCEEDINGS AFTER FILING OF A REORGANIZATION PLAN

SOP 90-7 specifies the manner in which companies undergoing reorganization proceedings under Chapter 11 are to prepare financial statements during this time. The following excerpts from the financial statements of nine companies illustrate the accounting required under the SOP. The examples are classified according to whether the bankruptcy applied to the parent company only, to the parent and subsidiaries, or to subsidiaries only. One or more plans of reorganization had been filed by each of the companies.

PARENT COMPANY ONLY

BANYAN CORP., JUNE 1, 1991

Banyan Corp.
(Debtor-in-Possession)
Consolidated Balance Sheets

	June 1, 1991	June 2, 1990
. . . .		
Liabilities and Stockholders' Equity		
Current Liabilities:		
Liabilities subject to		

Consolidated Balance Sheets (continued)

	June 1, 1991	June 2, 1990
compromise (Notes 1 and 2)	$7,394,000	—

. . . .

Total Current Liabilities	8,451,000	20,691,000

. . . .

Notes to Consolidated Financial Statements

1. Financial Statement Presentation

The accompanying consolidated financial statements of Banyan Corp. (the "Company") and its subsidiaries have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

As more fully described in Note 4, as a result of the Company's default in repayment of its revolving credit facility when due and the subsequent seizure of all of the Company's collateralized assets, on May 31, 1991 the Company filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). As further discussed in Note 2, the Company is presently operating its business as a debtor-in-possession under Chapter 11 and is subject to the jurisdiction and supervision of the Bankruptcy Court. Under Chapter 11, certain claims against the Company in existence prior to the filing of the petition for relief under the Federal bankruptcy laws are stayed while the Company continues business operations as debtor-in-possession. These claims are reflected in the June 1, 1991 balance sheet as "liabilities subject to compromise."

The consolidated financial statements include the accounts of the subsidiaries of the Company, for which no petition under the United States Bankruptcy Code has as yet been filed, although such filing is contemplated in the immediate future. Set forth below is the condensed balance sheet of Banyan Corp., the only entity which had filed for Chapter 11 protection as of June 1, 1991:

Current and Total Assets:	
Cash	$ 7,000
Current Liabilities:	
Other current liabilities	$ 46,000
Liabilities subject to compromise (See Note 2 below)	7,394,000
	7,440,000
Stockholders' Equity (Deficit)	$(7,433,000)
	$ 7,000

As reflected in the accompanying financial statements, the Company has experienced significant losses in each of the last three fiscal years. The Company's ability to continue as a going concern is dependent upon Bankruptcy Court approval of the DIP Loan Agreement (discussed in Note 8 below) and the Plan of Reorganization and the Company's ability to obtain funding, more fully discussed below in Note 2.

2. Plan of Reorganization

As discussed in Note 1, The Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code on May 31, 1991. On June 21, 1991 the Company filed a Plan of Reorganization with the Bankruptcy Court ("the Plan"). It is expected that within the next 45 days, after approval of the Disclosure Statement by the Bankruptcy Court, the Plan will be submitted to the Company's creditors and stockholders for their acceptance in accordance with the Bankruptcy Code. The following summary of the Plan is not intended as a solicitation of acceptances, which can only be made after approval of the Disclosure Statement by the Bankruptcy Court.

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AL COPELAND ENTERPRISES INC., DECEMBER 29, 1991

Al Copeland Enterprises, Inc.
Balance Sheets
December 29, 1991, and December 30, 1990
(dollars in thousands, except per share amounts)

	1991	1990
. . . .		
Liabilities and Shareholder's Deficit		
. . . .		
Total current liabilities	53,859	445,386
Liabilities subject to compromise	450,302	—
. . . .		

Al Copeland Enterprises, Inc.
Statements of Operations
For the Years Ended December 29, 1991, December 30, 1990, and December 31, 1989
(dollars in thousands)

	1991	1990	1989
. . . .			
Reorganization items:			
Professional fees	6,551	—	—
Interest earned on accumulated cash resulting from the Chapter 11 proceeding	(444)	—	—
Accelerated amortization of deferred loan costs	3,750	—	—
Accrued loss on future lease rejections	4,707	—	—

Statements of Operations (continued)

	1991	1990	1989
Other reorganization items	(20)	—	—
Total reorganization items	14,544	—	—
Loss before income taxes	(60,616)	(156,089)	(57,670)

. . . .

Al Copeland Enterprises, Inc.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation. The financial statements include the accounts of A. Copeland Enterprises, Inc. . . . (the "Company"). . . .

The financial statements of the Company have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. On April 12, 1991, (the "Petition Date"), the Company commenced a voluntary Chapter 11 case by filing for reorganization with the federal bankruptcy court (the "Bankruptcy Court"). As a result of the Chapter 11 proceedings (as more fully discussed in Note 2), the Company may have to sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the accompanying financial statements. Furthermore, if a plan of reorganization is approved, it is likely that substantial adjustments will be made to record assets and liabilities at their fair values as of the date the plan of reorganization is approved (the "Confirmation Date"). In the event a plan of reorganization is not confirmed by the Bankruptcy Court, the Company would not be able to continue as a going concern. The financial statements do not give effect to all adjustments to the carrying value of assets or amounts and classifications of liabilities that might be necessary as a consequence of these bankruptcy matters. The appropriateness of using the going concern basis is dependent upon, among other things, confirmation of a plan of reorganization, success of future operations, and the ability to generate sufficient cash from operations and financing sources to meet obligations.

The Company's financial statements as of December 29, 1991 have been presented in conformity with the AICPA's Statement of Position 90-7, "Financial Reporting By Entities In Reorganization Under the Bankruptcy Code," issued November 19, 1990 ("SOP 90-7"). The statement requires a segregation of liabilities subject to compromise by the Bankruptcy Court as of the bankruptcy filing date (April 12, 1991) and identification of all transactions and events that are directly associated with the reorganization of the Company.

Prior years comparative balances have not been reclassified to conform with current year balances stated under SOP 90-7. The most significant difference between the current year and prior years presentations is the reclassification of substantially all of the outstanding debt and preferred stock to "liabilities subject to compromise." See Note 2 for a detailed description of liabilities subject to compromise at December 29, 1991.

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2. Chapter 11 Bankruptcy Filings

During the last quarter of 1990 and the first quarter of 1991, the Company was unable to make certain payments of principal, interest and fees required by provisions of certain loan agreements between itself and Canadian Imperial Bank of Commerce ("CIBC"), as agent for the Company's bank lenders, under its Term Loan and to Merrill Lynch & Co. ("Merrill Lynch") under its Bridge Loan made in connection with the Acquisition.

Because of these difficulties and the inability of the Company, CIBC and Merrill Lynch to restructure these debts, on April 4, 1991, an involuntary Chapter 11 petition was filed against the Company under Title 11 of the United States Code (the "Bankruptcy Code") in United States Bankruptcy Court for the Western District of Texas, San Antonio, Texas. The petition for the involuntary case was filed by CIBC, Eaton Vance Prime Rate Reserve and Pilgrim Prime Rate Trust (collectively, the "Secured Lenders"), as members of the senior bank group, and Merrill Lynch.

On April 12, 1991, the Company commenced a voluntary Chapter 11 case by filing a petition for reorganization in the Bankruptcy Court in San Antonio, Texas (Bankruptcy Case Number 91-51401-C). Subsequently, the involuntary case and the voluntary case were consolidated for procedural purposes and the case was transferred to the United States Bankruptcy Court for the Western District of Texas, Austin Division (the "Bankruptcy Court") (Bankruptcy Case Number 91-12575-FM). The Company has continued to operate its business and manage its properties as debtor-in-possession, and the Company's officers and directors remain in control subject to the limitations and requirements of the Bankruptcy Code.

Under Chapter 11 of the Bankruptcy Code, certain claims against the Company in existence prior to the filing of the Chapter 11 petition ("Pre-Petition Claims" or "Pre-Petition Obligations") are stayed while the Debtor continues business operations as a debtor-in-possession. In connection with these claims, the Bankruptcy court established September 30, 1991 as the official bar date for filing Pre-Petition Claims (the "Bar Date"). Claims filed after that date will generally be disallowed. Claims which the Company believes will be allowed are stated in the December 29, 1991 balance sheet as "liabilities subject to compromise." Additional claims may arise resulting from the rejection of executory contracts, including leases, and from the determination by the Bankruptcy Court (agreed to by the parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured by the Company's assets ("Secured Claims") also are stayed, although the holders of such claims have the right to request the court for relief from the stay. Secured Claims are purportedly secured primarily by liens on the Company's assets.

Liabilities subject to compromise are reflected on the balance sheet as of December 29, 1991 as follows (*dollars in thousands*):

	1991
Liabilities subject to compromise:	
Accounts payable	$ 12,258
Capital lease obligations	5,576
Future obligations on closed restaurant properties	2,726
Payables to shareholder and affiliated parties	337
Accrued expenses and other liabilities	16,849
Deferred revenues	2,298
Short-term line of credit	10,412
Accrued interest	16,722
Notes payable to banks	1,019
Long-term debt	382,055
Dividends payable	50
	450,302
Redeemable preferred stock — subject to compromise	39,494
Total liabilities and redeemable preferred stock — subject to compromise	$489,796

The Debtor has received approval from the Bankruptcy Court to pay or otherwise honor certain of its Pre-Petition Obligations, including, but not limited to, employee wages, certain employee benefits and unreimbursed expenses, trash removal invoices, certain insurance claims and premiums, property taxes and payments for certain advertising costs through the Company's Advertising Funds.

While operating during the Chapter 11 proceedings, the Company is stayed from paying interest except on certain debts as authorized by the Bankruptcy Court. During such time as the Company is operating under Chapter 11 proceedings, it will only report interest expense to the extent that such interest will be paid during the Chapter 11 proceeding at the direction of the Bankruptcy Court. The amount of interest which has not been accrued as a result of the Chapter 11 proceeding amounted to $12.5 million in the fiscal year ended December 29, 1991.

The Company filed a motion on July 16, 1991 with the Bankruptcy Court to obtain debtor-in-possession financing (the "DIP Loan") to enable the Company to operate until a plan of reorganization could be approved by the Bankruptcy Court. On July 31, 1991, the court approved the motion. By this motion, the Company entered into a DIP Loan arrangement with CIBC, as agent for certain banks and other financial institutions with total credit availability per the terms of the agreement aggregating $30.0 million. . . .

. . . .

As a result of the Chapter 11 filings, substantially all of the Company's pre-petition debt and lease obligations are in default under the terms of their agreements.

Subsequent to year end, Copeland, CIBC and Merrill Lynch have filed separate plans of reorganization with the Bankruptcy Court. The terms and provisions of these plans of reorganization are discussed in Note 18, "Litigation." In the event a plan of reorganization is not confirmed by the Bankruptcy Court, the Company would not be able to continue as a going concern.

18. Litigation

. . . .

Plans of Reorganization. Four plans of reorganization under the provisions of the Bankruptcy Code have been filed. These include the July Plan, the Copeland Plan, the CIBC Plan and the Merrill Plan (as defined below and in Item 3, "Legal Proceedings"). The Company has withdrawn its July Plan and Merrill Lynch has withdrawn the Merrill Plan. An amended Copeland Plan and an amended CIBC Plan are the only two plans currently before the Bankruptcy Court. At a hearing held on May 5, 1992, the Bankruptcy Court approved a joint disclosure statement (see Exhibit 2.6) submitted in conjunction with the Copeland Plan and the CIBC Plan. The confirmation hearing respecting these plans is set to be heard in the Bankruptcy Court starting July 27, 1992. Since the July Plan and the Merrill Plans are no longer being considered, only the Copeland Plan and the CIBC Plan are included in this note. For information relating to the July Plan and the Merrill Plan, see Item 3, "Legal Proceedings."

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NATIONAL GYPSUM COMPANY, DECEMBER 31, 1991

National Gypsum Company and Subsidiaries
Consolidated Statements of Operations

	Year Ended December 31,		
	1991	1990	1989
		(thousands)	
. . . .			
Loss before bankruptcy expenses,			

	Year Ended December 31,		
	1991	1990	1989
		(*thousands*)	
taxes and extraordinary item	(19,084)	(568,346)	(76,856)
Bankruptcy expenses	129,766	14,142	

. . . .

National Gypsum Company and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	1991	1990
	(*thousands*)	

. . . .

Liabilities and Stockholder's Equity (Deficiency)		
Liabilities Not Subject to Compromise:		
Current Liabilities		
Accounts and notes payable	$ 65,504	$ 104,162
Accrued liabilities	64,746	54,952
Income taxes	—	573
Current portion of long-term debt	820	719
Total Current Liabilities	131,070	160,406
Long-Term Debt	7,382	5,047
Other Noncurrent Liabilities	8,293	15,340
Deferred Income Tax Liability	92,585	144,202
Liabilities Subject to Compromise	1,230,290	1,124,696

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National Gypsum Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1991

Chapter 11 Bankruptcy Proceedings

On October 28, 1990 (the "Filing Date"), Aancor Holdings, Inc. ("Aancor") and National Gypsum Company ("National"), a wholly-owned subsidiary of Aancor, (together, the "Debtor Corporations") filed separate voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code (the "Chapter 11 proceedings") in the United States Bankruptcy Court for the Northern District of Texas (the "Bankruptcy Court"). The Chapter 11 proceedings did not include The Austin Company ("Austin") or any other subsidiaries of National. The Chapter 11 proceedings are being jointly administered by the Bankruptcy Court, with the Debtor Corporations managing their businesses as debtors-in-possession subject to the control and supervision of the Bankruptcy Court.

On January 15, 1992, the Debtor Corporations filed a proposed joint plan of reorganization (the "Debtors' Proposed Plan") and a disclosure statement (the "Debtors' Proposed Disclosure Statement") with the Bankruptcy Court. Also on January 15, 1992, the Bankruptcy Court entered an order extending the period of exclusivity for the Debtor Corporations until July 15, 1992 and, with the agreement of the Debtor Corporations, allowed the Official Committee of Bond and Trade Creditors and the Official Committee of Asbestos Claimants (together, the "Committees") to file either their own plans or a joint plan. On January 21, 1992, the Committees filed an outline of their proposed joint plan of reorganization with the Bankruptcy Court (the "Committees' Proposed Plan Outline"). Although organizational structures and creditor recoveries proposed by the Debtors' Proposed Plan and the Committees' Proposed Plan Outline differ significantly, it appears that both generally provide for the allocation to the asbestos claimants of (i) all pre-1986 insurance policies covering asbestos-related liabilities, and (ii) the value of the stock of Austin. Until such time that the Debtors' Proposed Disclosure Statement is approved by the Bankruptcy Court for creditor voting purposes, no solicitation of votes accepting or rejecting the Debtors' Proposed Plan is authorized. As a result, the Debtor Corporations' ability to discuss the terms of the Debtors' Proposed Plan is limited. A hearing on the adequacy of the information contained in the Debtors' Proposed Disclosure Statement is expected to occur in the late spring or summer of 1992. Prior to or after such hearing, there could be substantial and material amendments to the Debtor's Proposed Plan and the Debtors' Proposed Disclosure Statement. Even if no changes are made, it is possible that the Debtors' Proposed Plan and the Debtors' Proposed Disclosure Statement may not be approved by the creditors or the Bankruptcy Court.

On January 21, 1992, the Official Committee of Bond and Trade Creditors (the "BT Committee") filed a motion requesting the Bankruptcy Court to appoint a Chapter 11 trustee to assume management of the Company. On March 25, 1992, the Bankruptcy Court denied such motion. The period to appeal the Bankruptcy Court's ruling has not yet expired.

In the Chapter 11 proceedings, substantially all liabilities, litigation and claims against the Debtor Corporations in existence at the Filing Date are stayed unless the stay is modified or lifted or payment has been otherwise authorized by the Bankruptcy Court. Liabilities for which payment is subject to the Chapter 11 proceedings have been classified as Liabilities Subject to Compromise in the Consolidated Balance Sheets. Additional liabilities may be recorded as a result of the rejection of executory contracts, including leases, and from the determination by the Bankruptcy Court (or by agreement by the parties in interest) of allowed claims for contingent claims and other disputed amounts. The rights of prepetition creditors may be substantially altered in the Chapter 11 proceedings, which could result in allowed claims being liquidated at less than 100% of their face value.

Except for certain claimants described below, all creditors, including Aancor, who had potential claims against National as of the Filing Date and whose claims were not scheduled or were scheduled as disputed, contingent or unliquidated by National were required to file proofs of claim with the Bankruptcy Court by the March 18, 1991 bar date. The bar dates for vinyl product warranty claims by warranty holders and environmental-related claims by federal agencies were May 15, 1991 and May 29, 1991, respectively. However, pursuant to an order by a U.S. district court, the environmental-related proofs of claim on behalf of such agencies may be amended. It is expected that the bar date for asbestos-related complete construction claims will be set by the Bankruptcy Court in the spring or summer of 1992, and presently, the Company does not anticipate that a bar date will be set for asbestos-related bodily injury claims. For those required to file proofs of claim, failure to have filed a proof of claim by the applicable bar date results in the party not being treated as a creditor for purposes of voting and distribution under a plan of reorganization, unless the Bankruptcy Court permits the filing of a late proof of claim for cause shown.

On November 21, 1990, the Bankruptcy Court granted approval to make a $105 million debtor-in-possession credit facility available to the Company. See Note "Long-Term Debt and Lines of Credit" for further discussion of the facility.

The following condensed financial statements of National have been prepared using the equity method of accounting for reporting the results of all wholly-owned subsidiaries of National that are not included in the Chapter 11 proceedings.

National Gypsum Company
Condensed Statements of Operations

	Year Ended December 31,	
	1991	1990
	(thousands)	
Net revenues	$438,140	$579,009
Cost of products sold (exclusive of depreciation, depletion and amortization)	349,308	462,105
Gross income	88,832	116,904
Selling, general and administrative expenses	75,537	91,669
Depreciation, depletion and amortization:		
Depreciation, depletion and amortization	45,849	43,724
Amortization and write-off of goodwill and other intangibles	—	453,262
	45,849	496,986
Operating loss	(32,554)	(471,751)
Other income (expense):		
Interest expense (contractual interest for 1991 — $144,276; 1990 — $133,628)	(3,811)	(110,702)
Sundry expense	(2,717)	(11,614)
Sundry income	7,968	6,547
Equity in undistributed net earnings of subsidiaries	6,987	16,590
	8,427	(99,179)
Loss before bankruptcy expenses, taxes and extraordinary item	(24,127)	(570,930)
Bankruptcy expenses	129,766	14,142
Loss before taxes and extraordinary item	(153,893)	(585,072)
Income tax benefit	58,111	55,196
Loss before extraordinary item	(95,782)	(529,876)
Extraordinary item:		
Extraordinary gain on early extinguishment of debt (net of applicable income tax expense of $3,573)		6,935
Net loss	$(95,782)	$(522,941)

National Gypsum Company
Condensed Balance Sheets

	December 31, 1991	December 31, 1990
	(thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 57,159	$ 23,579
Trade and sundry receivables, less allowances (1991 — $10,765; 1990 — $10,779)	50,443	75,672
Inventories	39,637	42,657
Other current assets	4,941	892
Total Current Assets	152,180	142,800
Property, Plant and Equipment — Based on Cost, net of accumulated depreciation (1991 — $232,581; 1990 — $202,250)	468,996	520,016
Investments in Wholly-Owned Subsidiaries	214,763	210,234
Income Tax Receivable	7,327	18,115
Receivable from Subsidiaries	3,485	—
Other Noncurrent Assets	48,571	36,331
Total Assets	$ 895,322	$ 927,496
Liabilities and Stockholder's Equity (Deficiency)		
Liabilities Not Subject to Compromise:		
Current Liabilities		
Accounts payable and accrued liabilities	$ 51,338	$ 41,534
Current portion of long-term debt	785	—
Payable to subsidiaries	—	730
Total Current Liabilities	52,123	42,264
Long-Term Debt	7,358	4,670
Other Noncurrent Liabilities	5,532	9,410
Deferred Income Tax Liability	83,035	134,694
Liabilities Subject to Compromise:		
Payable to parent and subsidiaries	105,221	100,600
Other	1,223,831	1,121,282
Commitments and Contingent Liabilities (See Note "Commitments and Contingencies")	—	—
Stockholder's Equity (Deficiency)	(581,778)	(485,424)
Total Liabilities and Stockholder's Equity (Deficiency)	$ 895,322	$ 927,496

National Gypsum Company
Condensed Statements of Cash Flows

	Year Ended December 31, 1991	1990
	(thousands)	
Cash flows from operating activities:		
Loss before extraordinary item	$(95,782)	$(529,876)
Adjustments to reconcile net loss before extraordinary item to net cash provided by operating activities:		
Depreciation, depletion and amortization	45,849	43,724
Amortization and write-off of goodwill and other intangibles	—	453,262
Amortization of original issue discount	—	58,400
Amortization of debt issuance costs	960	1,053
Non-cash bankruptcy expenses	119,112	12,035
Equity in undistributed net income of subsidiaries	(6,987)	(16,590)
Loss on sale of fixed assets	548	3,206
Deferred tax benefit	(47,189)	(17,499)
Tax expense of extraordinary item	—	(3,573)
Decrease in trade and sundry receivables	18,384	1,056
Decrease in inventories	239	1,577
(Decrease) increase in accounts payable and accrued liabilities	(2,854)	28,060
Increase (decrease) in income taxes payable	11,695	(16,730)
Increase in payable to parent and subsidiaries	407	15,943
Other — net	(6,153)	(9,269)
Net cash provided by operating activities	38,229	24,779
Cash flows from investing activities:		
Capital expenditures	(9,240)	(33,517)
Pretax proceeds from sale of fixed assets	16,278	1,883
Other — net	(3,641)	2,891
Net cash provided (used) by investing activities	3,397	(28,743)
Cash flows from financing activities:		
Borrowings (payments) on debtor-in-possession credit facility	(6,500)	6,500
Open-market purchases of long-term debt	—	(20,483)
Principal payments on other debt	(1,214)	(1,097)
Payments for debt issuance costs	(332)	(2,020)
Net cash used by financing activities	(8,046)	(17,100)
Net increase (decrease) in cash and cash equivalents	33,580	(21,064)
Cash and cash equivalents at beginning of year	23,579	44,643
Cash and cash equivalents at end of year	$ 57,159	$ 23,579

Significant Accounting Policies

The consolidated financial statements of National and its subsidiaries (the "Company") have been prepared on a "going-concern" basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 proceedings, which are more fully described in the preceding Note "Chapter 11 Bankruptcy Proceedings," such realization of assets and liquidation of liabilities is subject to significant uncertainties and Bankruptcy Court approval. Also, the ability of the Company to operate its businesses prior to confirmation of a plan of reorganization is dependent primarily on (i) its ability to maintain cash on hand and generate cash from operations to meet sufficiently its obligations which are not subject to the Chapter 11 proceedings and (ii) the availability of the debtor-in-possession credit facility.

Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," was issued by the American Institute of Certified Public Accountants in November 1990. The Company has accounted for all transactions related to the Chapter 11 proceedings in accordance with SOP 90-7. Accordingly, liabilities subject to compromise under the Chapter 11 proceedings have been segregated on the Consolidated Balance Sheets. Liabilities subject to compromise are recorded for the amounts the Company expects to be allowed on known claims rather than estimates of the amounts for which those claims may be settled as a result of any Bankruptcy Court-approved plan of reorganization. The Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the years ended December 31, 1991 and 1990 separately disclose expenses and cash transactions, respectively, related to the Chapter 11 proceedings. See Note "Bankruptcy Expenses." Interest expense on National's prepetition unsecured obligations ceased to accrue at the Filing Date.

Except as described above and disclosed in the Note "Bankruptcy Expenses," the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may result from the Chapter 11 proceedings. Upon confirmation of a plan of reorganization by the Bankruptcy Court and if there are no material unsatisfied conditions precedent to the confirmed plan's becoming effective, adjustments to the carrying values of the Company's assets and liabilities may be required to reflect the terms of such plan.

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Bankruptcy Expenses. Bankruptcy expenses included in the Consolidated Statements of Operations for the years ended December 31, 1991 and 1990 consist of the following:

	Year Ended December 31,	
	1991	1990
	(*thousands*)	
Provision for allowed claims	$113,152	$ —
Professional fees	12,822	1,945
Write-off of prepetition debt issuance costs	—	7,035
Provision for rejected executory contracts	—	5,000
Other	3,792	162
	$129,766	$14,142

The Company recorded a provision for allowed claims of $90 million to increase its estimate of the net liability subject to compromise for all asbestos-related claims, after consideration of the Chapter 11 proceedings and related insurance coverage, to approximately $105 million as of December 31, 1991. See "Conclusion on Asbestos-Related Matters" in Note "Litigation."

After consideration of information currently available, the Company also recorded a provision for allowed claims of approximately $20 million to increase its estimate of the liability subject to compromise for all environmental-related claims to approximately $26 million at December 31, 1991. See "Environmental Litigation and Claims" in Note "Litigation."

During 1990, National recorded $5.0 million in the provision for estimated allowed claims arising from the rejection of executory contracts, including real estate leases and supply contracts. National will continue to evaluate all executory contracts and may reject contracts that are not necessary or appropriate for the operations of National. Consequently, the liabilities recorded for rejection of executory contracts included in liabilities subject to compromise at December 31, 1991 may be subject to future adjustment. In addition, if National becomes aware of any significant unrecorded claims that can be reasonably estimated and are expected to be allowed by the Bankruptcy Court during the course of the Chapter 11 proceedings, liabilities subject to compromise may be adjusted. See Note "Commitments and Contingencies" for further discussion of claims received by the Bankruptcy Court.

Liabilities Subject to Compromise

Recorded liabilities identified by the Company as subject to compromise at December 31, 1991 and 1990 are separately classified in the Consolidated Balance Sheets and consist of the following:

	December 31,	
	1991	1990
	(thousands)	
Long-term debt (unsecured)	$1,006,494	$1,006,494
Accounts payable	41,901	44,335
Self-insurance, environmental and asbestos-settlement reserves	133,994	19,361
Accrued interest	15,352	16,529
Long-term debt (secured)	—	9,322
Reserve for rejected executory contracts	5,134	5,000
State income and property taxes payable	7,035	6,537
Other	20,380	17,118
	$1,230,290	$1,124,696

The increase in the self-insurance, environmental and asbestos-settlement reserves is due primarily to the provisions related to asbestos and environmental claims discussed in the Note "Bankruptcy Expenses."

Current liabilities, long-term debt and other noncurrent liabilities that are included in liabilities not subject to compromise in the December 31, 1991 and 1990 Consolidated Balance Sheets relate primarily to liabilities recorded for National's subsidiaries, liabilities for National that were incurred subsequent to the Filing Date and liabilities for National recorded prior to the Filing Date that will not become fixed as to amount until some future date, such as the deferred income tax liability and certain other reserves.

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REXENE CORPORATION, DECEMBER 31, 1991

Rexene Corporation and Subsidiaries
(Debtor-in-Possession)
Consolidated Statements of Operations
(in thousands of dollars, except per share amounts)

Consolidated Statements of Operations (continued)

	Years Ended December 31,		
	1991	1990	1989
. . . .			
Income (loss) before reorganization items, income taxes and extraordinary items	(50,461)	18,360	53,956
Reorganization items:			
Professional fees	(5,248)	—	—
Other costs	(776)	—	—
Interest earned on accumulated cash	294	—	—
Income (loss) before income taxes and extraordinary items	(56,191)	18,360	53,956

. . . .

Rexene Corporation and Subsidiaries
(Debtor-in-Possession)
Consolidated Balance Sheets
(in thousands of dollars)

	December 31,	
	1991	1990
. . . .		
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities subject to compromise:		
Senior and Senior Subordinated Notes	$403,000	$ —
Accrued interest	25,297	—
Liabilities not subject to compromise:		
. . . .		
Total current liabilities	479,928	62,992

. . . .

Rexene Corporation and Subsidiaries
(Debtor-in-Possession)
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements of Rexene Corporation ("Rexene") include its wholly-owned direct and indirect subsidiaries, principally Rexene Products

Company ("Rexene Products"). Rexene and its subsidiaries are hereinafter sometimes referred to individually or collectively as the "Company". . . .

2. Debt restructuring and Chapter 11 Filing

The Company's debt of $403 million, consisting of $253 million aggregate principal amount of Old Senior Notes and $150 million aggregate principal amount of Old Subordinated Notes, was scheduled to mature on July 15, 1992. On October 17, 1991, the Agreement in Principle was reached between the Company and the Unofficial Committee to restructure the Old Notes. Pursuant to the Agreement in Principle, the Company did not make the interest payment of $17.9 million due on the Old Notes on October 15, 1991. On the Petition Date, the Company filed with the Bankruptcy Court voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. The Company continues to operate the business as debtor-in-possession pursuant to the Bankruptcy Code. As a result of the filing, the maturity of the Old Notes was accelerated. Also, cash interest payments on the Old Notes have been suspended. As described below, this interest will be paid in cash and New Notes at the conclusion of the Chapter 11 proceedings.

On February 5, 1992 the Company filed with the Bankruptcy Court the Proposed Plan, which the Company believes contains the principal terms of the Agreement in Principle. The Proposed Plan provides that the Old Notes will be exchanged for a combination of long-term debt with lower interest rates, cash and common stock. The Noteholders and the holders of Rexene Common Stock will be impaired under the Proposed Plan. No other creditors of the Company will be impaired under the Proposed Plan. Confirmation by the Bankruptcy Court of the Proposed Plan will require (i) the acceptance of 66⅔% in principal amount and over 50% in number actually voting of each class of Noteholders, (ii) the acceptance of holders of 66⅔% of the shares of Rexene Common Stock voting and (iii) the satisfaction or waiver of certain other conditions precedent specified in the Proposed Plan. During the Chapter 11 proceeding, the Company may receive alternative offers to the Proposed Plan for its restructuring.

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Numerous proofs of claims have been filed against the Company. Many of these claims are for substantial amounts. Also, many of these claims are duplicate claims filed against each of Rexene, Rexene Products and Poly-Pac but seek only a single recovery. The Company believes that many of these claims separately and all of them collectively are highly inflated and a totally unreliable estimate of the Company's liability. The Bankruptcy Court established January 10, 1992 as the Bar Date for the filing of claims against the Company. The consolidated financial statements of the Company reflect those liabilities that arose prior to the Petition Date and that are not contingent, unliquidated or otherwise in dispute. No provision, however, has been recorded in the December 31, 1991 consolidated financial statements for any contingency claims arising from the filing of claims against the Company. The Company is currently in the process of analyzing all claims filed before or after the Bar Date. Although no assurances can be given, management of the Company currently believes the resolution of these claims will not have a material adverse effect on its financial condition.

The Company's ability to operate as a going concern is subject to the restructuring of its debt through Chapter 11 proceedings and the implementation of the Proposed Plan or an alternative thereto. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. In the event that it is not possible to obtain confirmation of the Proposed Plan or an alternative thereto, there is substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PARENT AND SUBSIDIARIES

FINEVEST FOODS INC., DECEMBER 31, 1991

Finevest Foods Inc.
Balance Sheets
(in thousands, except share data)

	December 31, 1991	December 31, 1990
. . . .		
Liabilities and Stockholders' Deficiency		
. . . .		
Total current liabilities	3,074	602
Liabilities subject to compromise	122,042	132,587
Total liabilities	125,116	133,189

. . . .

Finevest Foods, Inc.
Statements of Operations
(in thousands, except per share data)

	Year Ended December 31, 1991	1990	1989
. . . .			
Loss before reorganization items and income tax benefit	(988)	(54,649)	(20,701)
Reorganization items:			
Bankruptcy costs	5,093	—	—
Reduction in carrying value of investment in unconsolidated subsidiaries	15,196	—	—
Interest earned on accumulated cash resulting from Chapter 11 proceedings	(70)	—	—
Total reorganization items	20,219	—	—
Loss before income tax benefit	(21,207)	(54,649)	(20,701)

. . . .

Finevest Foods, Inc.
Notes to Financial Statements
(in thousands, except share and per share data)

Note 1: Basis of Presentation of Financial Statements

Following the filing on February 4, 1991 of an involuntary bankruptcy petition against a significant subsidiary, on February 11, 1991, Finevest Foods, Inc., ("Finevest") and each of its Operating Subsidiaries filed voluntary petitions seeking reorganization under Chapter 11 of the U.S. Bankruptcy Code. Under the provisions of the Bankruptcy Code, Finevest and each Operating Subsidiary (collectively, the "Debtors") is operating its respective business as a "debtor-in-possession" subject to the supervision of the Bankruptcy Court. On October 31, 1991, and as amended on December 30, 1991 and February 11, 1992, the Debtors filed two plans of reorganization (the "Plans"). One plan covers Finevest and its dairy subsidiaries: Land-O-Sun Dairies, Inc., Longlife Dairy Products, Inc., Atlanta Dairies, Inc. and Good Foods Acquisition Corp. (the "Joint Plan"). A second plan of reorganization was filed for SEFCO Holdings, Inc. (formerly Southeast Frozen Foods, Inc.), a subsidiary whose operating assets were sold in June 1991 (the "SEFCO Plan"). On February 14, 1992, the Bankruptcy Court approved the disclosure statements filed for both plans of reorganization. The Debtors are soliciting acceptance of the plans from creditors and stockholders, and a confirmation hearing is scheduled in Bankruptcy Court for May 15, 1992.

The terms of the Joint Plan (see Note 2) provide for the reorganization of Finevest's dairy operations under a new holding company subsidiary, Dairy Holdings, Inc. ("Dairy Holdings"), with an independent Board of Directors, management and independent financing.

Through various pre- and post-petition agreements, Finevest and the Operating Subsidiaries granted to its lending Bank Group security interests in all of their assets and property. As a result of the secured position of the Bank Group and the expected confirmation of the Plans, all available cash flow in the foreseeable future from operations and the sale of assets will be used to repay indebtedness to the Bank Group. The value of these subsidiaries to Finevest has been substantially impaired (see Note 11).

As a result of the security interests granted to the Banks, and the terms of the Plans which are expected to be accepted, Finevest expects to be unable to exercise significant influence over the operating and financing decisions of its dairy subsidiaries and therefore has changed its method of accounting and deconsolidated them in the financial statements (these subsidiaries had previously been consolidated at December 31, 1990 and in previous years). Finevest will account for its investment in Dairy Holdings and the Operating Subsidiaries under the cost method of accounting in the future. Consequently, these financial statements and notes reflect the financial position and results of operations of Finevest only, unless otherwise noted. Other effects of the reorganization, primarily the settlement of liabilities subject to compromise ($122,042) and the settlement of intercompany receivables ($87,656) through assumption of $90,000 of Bank debt by the Operating Subsidiaries have not been reflected in the financial statements, pending confirmation of the Plan.

Note 2: Plans of Reorganization

. . . .

The Joint Plan provides for (i) the payment in full of administrative claims (which include assumed contracts, reclamation claims and professional fees); priority wage claims; priority tax claims and mechanics liens; (ii) payment or compromise of certain secured claims; (iii) payments from an unsecured creditors fund to general unsecured creditors (the "Unsecured Creditors' Fund"); (iv) delivery to the Banks of new Senior Secured Notes of the Reorganized Operating Companies in the amount of $90,000 and 3,077,419 shares of "New Finevest Common Stock" (see Note 9) in exchange for principal and interest of $115,378 currently due them; and (v) retention by current shareholders of their shares of "Old Finevest Common Stock," which, following the reorganization, will represent 77.5 % of Finevest's outstanding common stock. . . .

The SEFCO Plan provides for the distribution of the proceeds from the sale of Southeast's assets and collections of its accounts receivable to the Bank Group and to SEFCO's unsecured creditors.

Note 3: Significant Accounting Policies

. . . .

Liabilities Subject to Compromises. Liabilities subject to compromise include obligations such as bank debt, trade payables and related party loans which were outstanding on the bankruptcy filing date and are subject to compromise under the terms of the two plans.

. . . .

Note 7: Liabilities Subject to Compromise

Liabilities subject to compromise consist of:

	December 31,	
	1991	1990
Accounts payable and accrued expenses	$ 2,404	$ —
Accrued interest	3,374	1,897
Demand notes payable	4,200	—
Long-term obligations (See Note 6)	112,064	130,690
	$122,042	$132,587

The demand notes payable are Berkley Loans (see Notes 6 and 13).

The decrease in long-term obligations in 1991 (following the bankruptcy) was primarily from the repayment of bank debt totalling $23,436, which was in accordance with the DIP Financing Agreement and Cash Collateral order. The funds used for the repayment were from the proceeds of the collection of accounts receivable, liquidation of inventory and the sale of certain fixed assets of Finevest's Southeast Frozen Foods operations and Land-O-Sun's Florida operations.

INTERCO INC., FEBRUARY 29, 1992

Consolidated Balance Sheet
(dollars in thousands)

	February 29, 1992	February 23, 1991	February 24, 1990

. . . .

Liabilities and
Shareholders' Deficit

	February 29, 1992	February 23, 1991	February 24, 1990
. . . .			
Total current liabilities	241,699	111,905	2,080,636
. . . .			
Liabilities subject to compromise (note 11)	2,165,311	2,137,658	—
. . . .			

Consolidated Statement of Operations
(dollars in thousands except per share data)

Years Ended	February 29, 1992	February 23, 1991	February 24, 1990
. . . .			
Loss before reorganization items, income tax expense (benefit) and discontinued operations	(16,865)	(215,482)	(63,580)
Reorganization items (note 5)	(28,047)	—	—
. . . .			

Notes to Consolidated Financial Statements
(dollars in thousands except per share data)

1. Petition for Relief Under Chapter 11

. . . .

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries (the "debtor") filed voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). Under Chapter 11, enforcement of certain claims in existence prior to the filing of the petitions was stayed, while the debtor continues operations in the ordinary course of business as debtor-in-possession. The stayed claims are reflected in the February 29, 1992 and February 23, 1991 consolidated balance sheets as "liabilities subject to compromise," as discussed in note 11. As of the petition date, the company discontinued accruing interest on its unsecured pre-petition debt obligations. Additional claims have arisen subsequent to the petition date resulting from the rejection of executory contracts and/or leases, drawdowns of pre-petition bank letters of credit, and from the allowance by the Bankruptcy Court of contingent and/or disputed claims. The Court established July 1, 1991 as the claims bar date.

Enforcement of claims secured by the debtor's assets ("secured claims") was also stayed, although the holders of such claims have the right to petition the court for relief from the stay. Secured claims are secured primarily by liens on substantially all of the debtor's assets, including cash, short-term investments, receivables, inventories and property, plant and equipment. The value of collateral security for any secured pre-petition debt obligations cannot be determined until a plan of reorganization is confirmed. For financial statement presentation, secured debt is also being accounted for as "liabilities subject to compromise."

The company and its domestic subsidiaries received approval from the Court to pay or otherwise honor certain of their pre-petition obligations, including employee wages and benefits; and, accordingly, these amounts have been paid or are included in the appropriate liability captions on the consolidated balance sheet. In addition, the Court approved the debtor's entering into a $150.0 million debtor-in-possession financing facility. On December 19, 1991, the Court approved an amendment for a one-year extension and a reduction in the commitment amount to $75.0 million of the debtor-in-possession facility, which is discussed in note 8.

On January 24, 1992, the debtor filed a Chapter 11 Plan of Reorganization and Disclosure Statement (as amended, the "Plan") with the Court. Following agreement in principle with committees representing the debtor's principal creditor groups, an amended Plan was filed on March 12, 1992. On March 19, 1992, the Court granted motions filed by the debtor approving an amended Disclosure Statement describing the consensual Plan and establishing procedures for notification of creditors and stockholders and for solicitation of formal acceptances of the Plan by creditors. All ballots for acceptance or rejection of the Plan were mailed on or before April 15, 1992. In general, the Plan provides for resolution of all claims against the debtor as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, and provides for distributions to creditors of (i) cash, (ii) new debt securities, (iii) new INTERCO INCORPORATED common stock and (iv) new warrants to purchase new INTERCO INCORPORATED common stock. At the effective date of the Plan, the company would have approximately $648.0 million of post-reorganization debt, and would have outstanding 50 million shares of new common stock and warrants to purchase 5 million shares of new common stock. The Plan provides for no distributions to the holders of the company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities will be cancelled as of the effective date of the Plan. The Plan anticipates an effective date of August 1, 1992.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filings and circumstances relating to this event, including the company's highly leveraged financial structure, such continuity of operations and realization of assets and liquidation of liabilities is subject to uncertainty. While under the protection of Chapter 11, the company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, the Plan will materially change the amounts reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of the Plan. The appropriateness of using the going-concern basis is dependent upon, among other things, the confirmation of the Plan, the ability to comply with debtor-in-possession financing agreements, generation of sufficient cash from operations and financing sources to meet obligations and achievement of satisfactory levels of future operating profit.

In November 1990, the American Institute of Certified Public Accountants issued Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). Pursuant to the guidance provided by SOP 90-7, the company will adopt "fresh start" reporting as of the effective date of the Plan. Under "fresh start" reporting, the reorganization value of the entity is allocated to the entity's assets. If any portion of the reorganization value cannot be attributed to specific tangible or identified intangible assets of the emerging entity, such amounts are to be reported as "reorganization value in excess of amounts allocable to identifiable assets" and amortized over a period of years, generally substantially less than forty years. As a result of adopting "fresh start" reporting upon emerging from Chapter 11 status, the company's financial statements will not be comparable with those prepared before the Plan is confirmed, including the historical financial statements included in this annual report.

2. Significant Accounting Policies

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Reorganization Items — Reorganization items consist of income, expenses, and other costs directly related to the Chapter 11 reorganization of the debtor.

. . . .

5. Reorganization Items

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the debtor since the Chapter 11 filing. Reorganization items included in the Consolidated Statement of Operations for fiscal 1992 are summarized as follows:

	1992
Interest earned on accumulated cash resulting from Chapter 11 proceedings	$ 8,597
Fees for services rendered	(25,135)
Debtor-in-possession financing fee amortization and expenses	(3,644)
Other organization costs and expenses	(7,865)
	$(28,047)

11. Liabilities Subject to Compromise

Those petition date liabilities that are expected to be settled as part of the Plan are classified in the consolidated balance sheet as liabilities subject to compromise as of February 29, 1992 and February 23, 1991, and include the following:

	1992	1991
Long-term debt	$1,055,132	$1,007,882
Debentures	965,507	965,507
Accounts payable and other liabilities	144,672	164,269
	$2,165,311	$2,137,658

As discussed in note 1, payment of these liabilities, including maturity of debt obligations, is stayed while the debtor continues to operate as a debtor-in-possession.

As part of the Chapter filing process, the company is required to notify all known or potential claimants for the purpose of identifying all pre-petition claims against the company. Additional claims and pre-petition liabilities were received by the company for the termination of various contractual obligations and as certain contingent and/or potentially disputed claims were settled for amounts which may differ from those shown on the consolidated balance sheet. Certain claims remain disputed or will continue to arise which will be resolved upon confirmation of the Plan.

METRO AIRLINES INC., APRIL 30, 1992

Metro Airlines, Inc. and Subsidiaries
(Debtors-in-Possession)
Consolidated Balance Sheets

Consolidated Balance Sheets (continued)
(in thousands)

	April 30,	
	1992	1991
. . . .		
Liabilities and Stockholders' Deficit		
. . . .		
Total current liabilities	8,104	5,914
Liabilities subject to Chapter 11 proceedings	64,618	66,855
. . . .		

Metro Airlines, Inc. and Subsidiaries
(Debtors-in-Possession)
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended April 30,		
	1992	1991	1990
. . . .			
Other income (expense):			
. . . .			
Reorganization items	(344)	(5,018)	—
. . . .			

Metro Airlines, Inc. and Subsidiaries
(Debtors-in-Possession)
Notes to Consolidated Financial Statements

(1) Chapter 11 Reorganization

On April 1, 1991 (the "Petition Date"), Metro Airlines, Inc. ("Metro") and two of its subsidiaries, Metroflight, Inc. ("Metroflight") and Metro Leasing, Inc. ("Metro Leasing") (collectively, the "Debtors"), filed voluntary petitions in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the "Bankruptcy Court") for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Code"). The bankruptcy proceedings of the Debtors have been consolidated for administrative purposes only. Presently, each Debtor is maintaining its own separate bankruptcy case. As used in these consolidated financial statements, unless the context indicates otherwise, the term "Company" refers to Metro and its subsidiaries.

The Debtors are operating as debtors-in-possession under the Code. As debtors-in-possession, the Debtors are authorized to operate their businesses, but may not engage in transactions outside of the ordinary course of business without approval of the Bankruptcy Court. Pursuant to the Code, a committee of the Debtors' unsecured creditors (the "Creditors Committee") has been appointed.

Among other things, the Creditors Committee reviews certain proposed business transactions and has negotiated a plan of reorganization with the Debtors.

As of the Petition Date, actions to collect prepetition indebtedness were stayed and other contractual obligations may not be enforced against the Debtors. In addition, the Debtors may reject executory contracts and lease obligations during pendency of the Chapter 11 proceedings, and parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. Substantially all unsecured liabilities of the Debtors as of the Petition Date, except for taxes and certain claims subject to settlements approved by the Bankruptcy Court, are subject to compromise under a plan of reorganization to be voted upon by all impaired classes of creditors and equity security holders and approved by the Bankruptcy Court.

On May 14, 1992, the Company and the Creditors Committee filed their Joint Plan of Reorganization (the "Joint Plan") with the Bankruptcy Court, which plan was amended on June 12, 1992. The Joint Plan provides for the reorganization and continuation of the Debtors through the restructuring of the majority of the Debtors' prepetition unsecured debt and the structuring of payments under various other claims with interest over periods of six to fifteen years. In addition, the Joint Plan contemplates substantial dilution of the interests of Metro's current equity holders. . . . Although the Company and the Creditors Committee are both proponents of the Joint Plan, there is no assurance that the Joint Plan will receive the requisite approval of the creditors or, ultimately, of the Bankruptcy Court. Should the Company fail to obtain acceptance of its plan and the exclusivity period to obtain such acceptance not be extended by the Bankruptcy Court, any creditor or equity holder will be free to file a plan of reorganization with the Court and solicit acceptances with respect thereto. The Company has until the start of the confirmation hearing, currently scheduled to commence on September 30, 1992, to obtain acceptance of the Joint Plan.

The Company has accounted for all transactions related to the reorganization proceedings in accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the American Institute of Certified Public Accountants in November 1990. Accordingly, all prepetition liabilities of the Debtors that are subject to compromise under the plan of reorganization ultimately approved by the Bankruptcy Court are segregated in the Company's consolidated balance sheets as liabilities subject to Chapter 11 proceedings. These liabilities are recorded at the amounts expected to be allowed as claims by the Bankruptcy Court rather than estimates of the amounts for which those allowed claims may be settled as a result of any plan of reorganization approved by the Bankruptcy Court. Interest expense on unsecured and undersecured obligations ceased to accrue at the Petition Date.

The Debtors' creditors have submitted claims for liabilities not paid and for damages incurred. There are differences between the amounts at which certain liabilities are recorded in the financial statements and the amount claimed by the creditors. Litigation may ultimately be required to resolve such disputes. The Company is incurring significant legal, professional and other expenses associated with the reorganization which are being expensed when incurred and are reported separately in the consolidated statements of operations as reorganization items. The total amount of these expenses is not now readily determinable, but is likely to be material and may significantly affect future results.

The following table summarizes Liabilities Subject to Chapter 11 Proceedings (excluding contingent liabilities — See Note 7) related to the Debtors' bankruptcies and subject to compromise (*in thousands*):

	April 30,	
	1992	1991
Long-term debt — secured	\$11,804	\$11,990
Long-term debt — unsecured	9,973	9,973
8½% convertible subordinated debentures	18,227	18,227
Accounts payable and accrued payroll costs	3,760	5,390
Accrued and deferred aircraft lease payments	8,959	9,315
Accrued interest	1,357	1,364

	April 30,	
	1992	1991
Other accrued liabilities, principally guarantees and indemnifications	6,978	7,036
Other long-term liabilities	3,560	3,560
	$64,618	$66,855

. . . .

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 proceedings, such realization of assets and liquidation of liabilities are subject to significant uncertainty. Further, a plan of reorganization could materially change the amounts currently recorded in the consolidated financial statements. The appropriateness of using the going concern basis is also dependent upon, among other things, confirmation of a plan of reorganization, future successful operations and the ability to generate sufficient cash from operations and financing sources to meet obligations.

As a result of the decision to file for protection under Chapter 11, the following reorganization items were expensed in fiscal 1992 and 1991 (*in thousands*):

	Year Ended April 30,	
	1992	1991
Write-off of debt issuance costs	$ —	$1,103
Provision for rejected executory contracts	3	3,687
Professional fees and other, net	755	228
Interest income	(414)	—
	$344	$5,018

NATIONAL CONVENIENCE STORES INC., JUNE 30, 1992

National Convenience Stores Incorporated and Subsidiaries
(Debtor-in-Possession)
Consolidated Statements of Earnings
(amounts in thousands, except per share amounts)

	Year Ended June 30,		
	1992	1991	1990
. . . .			
Loss Before Reorganization Expenses and Income Taxes	(192,928)	(19,380)	(3,076)
Reorganization Expenses, net	3,361	—	—

. . . .

National Convenience Stores Incorporated and Subsidiaries
(Debtor-in-Possession)
Consolidated Balance Sheets

($ in thousands)

	June 30,	
	1992	1991
. . . .		
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities (some of which may be subject to compromise):		
. . . .		
Total Current Liabilities	61,825	86,186
Liabilities Subject to Compromise (Note 3)	301,241	—
. . . .		

National Convenience Stores Incorporated and Subsidiaries
(Debtor-in-Possession)
Notes to Consolidated Financial Statements
(all tabular amounts expressed in thousands of dollars)

2. Bankruptcy Filing and Plan of Reorganization

Chapter 11 Bankruptcy Filing. On December 9, 1991, the Company and substantially all of its wholly-owned active subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the "Bankruptcy Court"). The Company is currently operating its business as a debtor-in-possession under the supervision of the Bankruptcy Court.

As of the Petition Date, actions to collect pre-petition indebtedness are stayed and other contractual obligations may not be enforced against the Company. In addition, under the Bankruptcy Code the Company may reject leases and executory contracts. Parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. Substantially all liabilities as of the Petition Date are subject to settlement under a plan of reorganization to be voted upon by the creditors and confirmed by the Bankruptcy Court.

The Company's bankruptcy filing was precipitated by the loss of a substantial portion of its vendor trade credit in November and early December 1991. The loss of trade credit was a direct result of the Company's negative operating results, which severely restricted the Company's cash flows and caused the Company to announce on November 12, 1991, a suspension of its dividend payments on Series E Preferred Stock and a moratorium on various principal and interest payments effective December 1, 1991.

Subsequent to the Petition Date the Company has utilized the provisions of the Bankruptcy Code to stabilize and improve its business operations, including the elimination of unprofitable operations. Such activities allowed the Company to return to profitability in its fourth quarter of fiscal 1992 and provided the foundation on which to design a plan of reorganization.

Plan of Reorganization. On August 21, 1992, the Company filed its First Amended and Restated Joint Plan of Reorganization and First Amended Disclosure Statement. Included therein are two separate plans of reorganization ("Plan A" and "Plan B"), each to be voted upon by the creditors. The Company is attempting to obtain confirmation of Plan A, but if unsuccessful, will attempt to obtain confirmation of Plan B instead.

Both plans divide the Company's creditors into five primary classifications: (i) priority claims, (ii) secured bank and other debt, (iii) secured mortgage debt, (iv) unsecured debt, and (v) publicly-held unsecured debt. Under Plan A, the Company would repay all of its creditors the full amount of their claims over time with interest and would retain the stock interests of the existing preferred and common stockholders. The plan attempts to balance the relative rights of each of the five classifications of creditors regarding repayment with the timing of the repayment.

Plan B is based on certain creditors' statements to the Company that the reorganized company should reduce its debt from the onset and thus is designed to repay all priority creditors and secured creditors over time with interest and to satisfy the allowed unsecured claims with newly issued stock. Such stock interest would be distributed to the holders of allowed unsecured claims, subject to subordination agreements among the creditors. The equity to be distributed to the holders of the 12½% Senior Subordinated Debentures (the "12½% Debentures") and the 9% Debentures would be distributed to a trust pending resolution of any subordination issues. The plan provides that the trust subsequently sell the stock on behalf of the trust's beneficiaries. Existing Series E Preferred Stock and Common Stock would be cancelled if Plan B is confirmed.

The Bankruptcy Court has scheduled a hearing to consider the Company's First Amended Disclosure Statement on September 30, 1992, and subsequently, the First Amended Disclosure Statement as further amended and upon approval by the Bankruptcy Court will be sent to all members of each class of creditors and equity security holders entitled to vote for acceptance or rejection. Following acceptance or rejection of the plans by the impaired classes of creditors and equity security holders, the Bankruptcy Court, at a hearing presently scheduled for November 4, 1992, will consider whether to confirm either of the plans. The Bankruptcy Court, however, may continue or reschedule the hearings on the disclosure statement and plan confirmation. To confirm a plan, the Bankruptcy Court is required to find, among other things, that (i) with respect to each impaired class of creditors and equity security holders each holder in such class will, pursuant to the plan, receive at least as much as such holder would receive in liquidation, (ii) each impaired class of creditors and equity security holders has accepted the plan by the requisite vote, and (iii) confirmation of the plan is not likely to be followed by liquidation or the need for further financial reorganization of the debtor or any successor unless the plan proposes such liquidation or reorganization. If any impaired class of creditors or equity security holders does not accept Plan A, it will not be confirmed. If any impaired class of creditors does not accept Plan B, assuming that all the other requirements of the Bankruptcy Court are met, the Company may request the Bankruptcy Court to invoke the "cram down" provisions of the Bankruptcy Code and seek confirmation of Plan B over the creditors' objections. Because of the possibility of the Company not being able to obtain confirmation of Plan A, the value of the Company's publicly-held debt as well as the Company's Series E Preferred Stock and Common Stock is highly speculative.

The Company cannot predict the outcome of any of the foregoing proceedings; however, it is not uncommon for reorganization plans proposed by debtors in bankruptcy proceedings to be amended on one or more occasions in response to a variety of circumstances, including negotiations among the debtors, their creditors and the equity security holders. At the present time however, the Company is unable to predict whether either of the proposed plans will be amended and, if so, to what extent.

After a plan of reorganization is approved by the Bankruptcy Court, continuation of the business thereafter is dependent upon the success of future operations and the Company's ability to meet its obligations as they become due.

3. Liabilities Subject to Compromise

Substantially all the Company's liabilities as of the Petition Date are subject to settlement under a plan of reorganization. The Company is generally not permitted to make payments with respect to its pre-petition liabilities until the Bankruptcy Court has confirmed a plan of reorganization. As of June 30, 1992, Liabilities Subject to Compromise consisted of the following (*$ in thousands*):

Priority Claims	$ 9,886
Secured Debt:	
Revolving Credit Agreement —	
Principal	32,747
Interest	21
ESOP Loan — Principal	23,167
Interest	36
Letters of Credit Drawn	9,223
Ad Valorem Taxes	1,687
Other	2,952
Secured Mortgage Debt-Principal	69,836
Interest	3,312
General Unsecured Claims	110,542
Public Debt:	
12½% Debentures — Principal	40,000
Interest	1,408
9% Debentures — Principal	17,930
Interest	847
	323,594
Less Current Portion of Fully Secured Mortgage Debt (Note 5)	(22,353)
	$301,241

Priority Claims. This category consists of claims that, under bankruptcy law, the Company is required to prioritize their repayment. Such claims are composed principally of vendor reclamation claims and certain tax claims.

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SUBSIDIARIES ONLY

BALLY MANUFACTURING CORPORATION, DECEMBER 31, 1991

Bally Manufacturing Corporation
Notes to Consolidated Financial Statements
(all dollar amounts in thousands except per share data)

Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of Bally Manufacturing Corporation (the "Parent Company") and all its subsidiaries (collectively, the "Company") except Bally's Grand, Inc. ("Bally's Grand"), the subsidiary that owns and operates the Company's Nevada casino resorts and presently is a debtor-in-possession under Chapter 11 of the United States Bankruptcy Code, which is presented on the equity method of accounting as discussed under "Investment in Bally's Grand."

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Investment in Bally's Grand

In conjunction with its restructuring, the Parent Company's Board of Directors decided, in October 1990, to discontinue funding Bally's Grand's cash shortfalls. Following that decision, Bally's Grand did not make scheduled principal and interest payments on its public debt. Following the default, the Company and Bally's Grand entered into discussions with certain holders of Bally's Grand's public debt concerning a financial reorganization of Bally's Grand. On October 3, 1991, a group of holders of the Bally's Grand 12% Senior Subordinated Debentures due 1996 filed an involuntary bankruptcy petition against Bally's Grand. On November 25, 1991, Bally's Grand consented to the entry of an order for relief in the bankruptcy case and on November 27, 1991 an order for relief was entered. Since that date, Bally's Grand has operated its business and managed its properties as debtor-in-possession under the authority of the United States Bankruptcy Code.

On February 27, 1992 Bally's Grand filed a plan of reorganization with the Bankruptcy Court and negotiations with Bally's Grand's creditors are continuing regarding a financial reorganization. Based on present circumstances, the Company believes that any such reorganization will require the Company to relinquish a majority, if not all, of its equity interest in Bally's Grand. See "Subsequent events." Because the Company believes its loss is limited to its investment in and advances to Bally's Grand, which was written down to zero in 1990, and because of the expected loss of control, the consolidated financial statements have been restated to reflect the investment in and advances to and the results of operations of Bally's Grand on the equity method of accounting for all years presented. Summarized financial information of Bally's Grand is presented in the following tables:

Condensed Consolidated Balance Sheet

	December 31,	
	1991	1990
Current assets	$ 91,766	$ 66,170
Property, plant and equipment, net	284,494	292,552
Other assets	812	981
Total assets	377,072	359,703
Debt in default	413,362	412,761
Accrued and unpaid interest	71,098	30,910
Payable to Bally Manufacturing Corporation and affiliates	9,759	11,293
Other current liabilities	44,377	53,604
Long-term liabilities	6,467	16,276
Stockholder's deficit	$(167,991)	$(165,141)

Debt in default of Bally's Grand consists of:		
11½% First Mortgage Notes due 1996 (less unamortized discount of $2,943 and $3,532)	$317,057	$316,468
13% Second Mortgage Notes due 1996 (includes unamortized premium of $355 and $404)	84,516	84,565
12% Senior Subordinated Debentures due 1996 (less unamortized discount of $495 and $556)	11,789	11,728
	$413,362	$412,761

The $11\frac{1}{2}\%$ First Mortgage Notes due 1996 are secured by deeds of trust, assignments of leases and security interests relating to property and equipment at the Bally's Las Vegas and Bally's Reno casino resorts. The 13% Second Mortgage Notes due 1996 are secured by second liens on the property and equipment at the Bally's Las Vegas and Bally's Reno casino resorts. The 12% Senior Subordinated Debentures due 1996 are unsecured.

Condensed Consolidated Results of Operations

	Years Ended December 31,		
	1991	1990	1989
Revenues	$361,438	$367,473	$379,150
Costs and expenses	361,836	711,852	400,668
Loss before income taxes	(398)	(344,379)	(21,518)
Provision (benefit) for income taxes	2,452	(10,408)	(4,350)
Net loss	$ (2,850)	$(333,971)	$(17,168)

The Company's consolidated statement of operations for 1991 and 1990 includes zero and $186,621, respectively, equity in net loss of Bally's Grand as the Company's investment in Bally's Grand was written down to zero in 1990.

Costs and expenses of Bally's Grand for 1991 include restructuring costs of $4,255 and exclude interest expense subsequent to the October 3, 1991 filing of the involuntary bankruptcy petition. Contractual interest expense for the period October 3, 1991 through December 31, 1991 was $13,915. Costs and expenses for 1990 include: (i) a write-off totaling $71,232 of intangible assets, (ii) a valuation adjustment totaling $246,000 to fixed assets, and (iii) restructuring costs of $1,220.

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Subsequent Events

On February 27, 1992, Bally's Grand filed a Plan of Reorganization and Disclosure Statement (the "Plan") with the United States Bankruptcy Court for the District of New Jersey where the Bally's Grand bankruptcy case is currently pending. The Plan provides for all outstanding Bally's Grand $11\frac{1}{2}\%$ First Mortgage Notes due 1996 ($320,000 outstanding principal amount plus $57,024 accrued and unpaid interest as of October 3, 1991, the date of the filing of the involuntary bankruptcy petition) to be exchanged for $250,000 principal amount of new 8-year 12% First Mortgage Notes, which would be secured by the Bally's Las Vegas and Bally's Reno casino resort facilities and other assets of Bally's Grand. Holders of Bally's Grand $11\frac{1}{2}\%$ First Mortgage Notes due 1996 would also receive, in the aggregate, all of the common stock of reorganized Bally's Grand to be issued upon the effectiveness of the Plan. . . . The Plan must be approved by Bally's Grand creditors and Nevada regulatory authorities and confirmed by the Bankruptcy Court. No assurance can be given that such approvals or confirmation will be obtained.

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IV

FINANCIAL REPORTING AFTER CONFIRMATION OF THE REORGANIZATION PLAN — FRESH-START REPORTING

SOP 90-7 specifies the manner in which companies are to prepare balance sheets, income statements, and cash flow statements covering periods after confirmation of the reorganization plan. In preparing such statements, companies are required in some circumstances to reflect "fresh-start reporting" and in other circumstances are prohibited from reflecting fresh-start reporting. Reflecting fresh-start reporting principally involves allocating the reorganization value of the entity among its assets.

The following excerpts from the financial statements of eight companies illustrate the accounting required under the SOP to reflect fresh-start reporting after confirmation of a plan. The examples are classified according to whether the bankruptcy applied to the parent company only or to the parent and subsidiaries.

PARENT COMPANY ONLY

CHARTER MEDICAL CORPORATION, SEPTEMBER 30, 1992

Charter Medical Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands)

	September 30, 1992 (Note 2)	September 30, 1991

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Consolidated Balance Sheets (continued)

	September 30, 1992	September 30, 1991
Total Current Assets	355,428	387,494
Assets Restricted for Settlement of Unpaid Claims	67,456	49,389
. . . .		
Reorganization Value in Excess of Amounts Allocable to Identifiable Assets	212,500	—
. . . .		
Total Current Liabilities	314,710	2,135,695
. . . .		
Reserve for Unpaid Claims	98,346	93,807

. . . .

Charter Medical Corporation and Subsidiaries
Consolidated Statements of Operations
(*in thousands, except per share amounts*)

	Two Months Ended September 30, 1992 (Note 2)	Ten Months Ended July 31, 1992
. . . .		
Amortization of reorganization value in excess of amounts allocable to identifiable assets	12,500	—
. . . .		
Loss before reorganization items, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(6,020)	(53,132)
Reorganization items:		
Professional fees and other expenses	—	(8,156)
Adjust accounts to fair value	—	83,004

. . . .

1. Consummation of the Restructuring

On June 2, 1992, Charter Medical Corporation filed a voluntary petition under chapter 11 of the Code in the United States Bankruptcy Court for the District of Delaware. No subsidiaries of the Company were included in the filing. The Court confirmed the Company's Plan on July 8, 1992, and the Plan became effective on July 21, 1992 (the "Effective Date"). The consummation of the Plan resulted in, among other things, (i) a reduction of approximately $700 million in long-term debt, (ii) elimination of $233 million of Old Preferred Stock and (iii) the issuance of approximately 24.8 million shares of Common Stock issued to the holders of the Old Debentures, the Old Preferred Stock and the Old Common Stock. Under the Plan, holders of claims and interests that were impaired received the following:

For each $1,000 of principal amount or share, as applicable, of:	The holder received:
Old Senior Notes, representing an accreted value of $984.72 at June 30, 1991	$984.72 principal amount of Senior Secured Notes
Old Senior Subordinated Debentures	$430.98 principal amount of Debentures and 38.681 shares of Common Stock
Old Subordinated Debentures	$235.00 principal amount of Debentures and 20.743 shares of Common Stock
Old Junior Subordinated Debentures	15.749 shares of Common Stock
Old Series A Preferred Stock	.357 of a share of Common Stock and .165 of a 2002 Warrant
Old Series B Preferred Stock	.882 of a share of Common Stock
Old Series C Preferred Stock	.539 of a share of Common Stock
Old Series D Preferred Stock	.011 of a share of Common Stock
Old Common Stock	.050 of a share of Common Stock

As a result of the consummation of the Plan, the financing under the Old Credit Agreement was replaced by the following new facilities under the Credit Agreement: (i) the Tranche A facility (the "Tranche A Facility") in a principal amount of $334,891,000 plus $73,289,000, the face amount of the letters of credit supported by the Tranche A Facility and (ii) the Tranche B facility (the "Tranche B Facility") in a principal amount of $159,742,000. In addition, the Credit Agreement established a new facility (the "Tranche C Facility") in the maximum principal amount of $75 million, subject to availability.

Upon consummation of the Plan, the Company recognized an extraordinary gain on debt discharge of approximately $731 million, which represented forgiveness of debt, principal and interest, reduced by the estimated fair value of Common Stock issued to the holders of the Old Debentures. The Company's long-term debt was stated at the present value of amounts to be paid, determined at estimated current interest rates on July 31, 1992. This adjustment to present value resulted in an aggregate carrying amount for the Company's long-term debt which was less than the aggregate principal amount thereof, and will result in the amortization of the difference into interest expense over the terms of the debt instruments.

2. Fresh-Start Reporting

The Company has accounted for the Restructuring by using the principles of fresh start accounting, as required by AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." For accounting purposes, the Company assumed that the Plan was consummated on July 31, 1992. Under the principles of fresh start accounting, the Company's total assets were recorded at their assumed reorganization value, with the reorganization value allocated to identifiable tangible assets on the basis of their estimated fair value. Accordingly, the Company's property and equipment was reduced by approximately $129 million and its intangible assets of approximately $57 million were written off. In addition, the Company's accumulated deficit of approximately $215 million, Old Common Stock in treasury of approximately $142,000 and cumulative foreign currency adjustments of approximately $3 million were eliminated. The excess of the reorganization value over the value of identifiable assets is reported as "reorganization value in excess of amounts allocable to identifiable assets" (the "Excess Reorganization Value").

The total reorganization value assigned to the Company's assets was estimated by calculating projected cash flows before debt service requirements, for a five-year period, plus an estimated terminal value of the Company (calculated using a multiple of approximately six (6) on projected EBDIT), each discounted back to its present value using a discount rate of 12% (representing the estimated after-tax weighted cost of capital). This amount was approximately $1.2 billion and was increased by (i) the estimated net realizable value of assets to be sold and (ii) estimated cash in excess of normal operating requirements. The above calculations resulted in an estimated reorganization value of approximately $1.3 billion, of which the Excess Reorganization Value was $225 million. The Excess Reorganization Value will be amortized over three years.

As a result of the implementation of fresh-start accounting, the financial statements of the Company after consummation of the Plan are not comparable to the Company's financial statements of prior periods.

The effect of the Plan and the implementation of fresh start accounting on the Company's consolidated balance sheet as of July 31, 1992 was as follows (*in thousands*) (unaudited):

	Pre-Fresh Start Balance Sheet July 31, 1992	Adjustments to Record Plan Confirmation[a]
Cash	$ 154,729	
Other current assets	226,563	
Property, plant and equipment:		
Land	104,679	
Buildings and improvements	719,569	
Equipment	280,522	
Construction in progress	11,686	
Accumulated depreciation	(330,445)	
Other long-term assets	66,145	
Other intangible assets	87,739	(30,781)
Reorganization value in excess of amounts allocable to identifiable assets	—	
	$1,321,187	

	Pre-Fresh Start Balance Sheet July 31, 1992	Adjustments to Record Plan Confirmation[a]
Current liabilities, excluding current maturities of long-term debt	$ 396,726	(186,545)
Long-term debt, including current maturities	1,716,816	(753,621)
Reserve for unpaid claims	100,215	
Deferred income taxes	29,506	
Other long-term liabilities	7,617	
Redeemable preferred stock	233,066	(233,066)
Stockholders' Equity (Deficit)	(1,162,759)	1,142,541
	$1,321,187	

	Fair Value Adjustments [b]	Fresh Start Balance Sheet July 31, 1992
Cash		$ 154,729
Other current assets	973	227,536
Property, plant and equipment:		
Land	18,039	122,718
Buildings and improvements	(311,618)	407,951
Equipment	(165,258)	115,264
Construction in progress	(258)	11,428
Accumulated depreciation	330,445	—
Other long-term assets	(792)	65,353
Other intangible assets	(56,958)	—
Reorganization value in excess of amounts allocable to identifiable assets	225,000	225,000
		$1,329,979
Current liabilities, excluding current maturities of long-term debt	7,353	$ 217,534
Long-term debt, including current maturities		963,195
Reserve for unpaid claims		100,215
Deferred income taxes		29,506
Other long-term liabilities		7,617
Redeemable preferred stock		—
Stockholders' Equity (Deficit)	32,220	11,912
		$1,329,979

(a) To record the forgiveness of debt, the exchange of Old Preferred Stock and the issuance of Common Stock pursuant to the Plan.

(b) To record the adjustments to state assets and liabilities at their estimated fair value, including the establishment of reorganization value in excess of amounts allocable to identifiable assets.

The following unaudited pro forma consolidated statement of operations combines the two month period ended September 30, 1992 and the ten month period ended July 31, 1992 and reflects the financial results for the Company as if the Plan had been effective October 1, 1991 (*in thousands*). The pro forma information does not purport to be indicative of the results that actually would have been obtained had such transactions been completed as of the beginning of the period presented or that may be obtained in the future.

	For the Two Months Ended September 30, 1992	For the Ten Months Ended July 31, 1992	For the Twelve Months Ended September 30, 1992
Net revenue	$204,630	$1,070,121	$1,274,751
Operating expenses	153,558	788,262	941,820
Bad debt expense	19,387	67,683	87,070
Depreciation and amortization	6,075	46,583	52,658
Interest, net	13,057	171,064	184,121
ESOP expense	6,862	46,471	53,333
Deferred compensation and stock option expense (credit)	(789)	3,190	2,401
Amortization of reorganization value in excess of amounts allocable to identifiable assets	12,500	—	12,500
Loss before reorganization items, income taxes and extraordinary item	(6,020)	(53,132)	(59,152)
Reorganization items	—	74,848	74,848
Provision for income taxes	(1,176)	(4,338)	(5,514)
Extraordinary item:			
Gain on debt discharge	—	730,589	730,589
Net income (loss)	(7,196)	747,967	740,771
Preferred stock dividend requirements	—	18,224	18,224
Net income (loss) applicable to common stock	$ (7,196)	$ 729,743	

	Pro Forma Adjustments	Pro Forma Twelve Months Ended September 30, 1992
Net revenue		$1,274,751
Operating expenses		941,820
Bad debt expense		87,070
Depreciation and amortization	(14,036)[a]	38,622
Interest, net	(95,605)[b]	88,516
ESOP expense		53,333
Deferred compensation and stock option expense (credit)	(2,401)[c]	—
Amortization of reorganization value		

	Pro Forma Adjustments	Pro Forma Twelve Months Ended September 30, 1992
in excess of amounts allocable to identifiable assets	62,500 [d]	75,000
Loss before reorganization items, income taxes and extraordinary item		(9,610)
Reorganization items	(74,848)[e]	—
Provision for income taxes	(22,198)[f]	(27,712)
Extraordinary item:		
Gain on debt discharge	(730,589)[g]	—
Net income (loss)		(37,322)
Preferred stock dividend requirements	(18,224)[h]	—
Net income (loss) applicable to common stock		$ (37,322)

(a) To restate depreciation and amortization expense for (1) the elimination of historical amortization of the cost in excess of the fair value of identifiable assets of purchased businesses and other deferred charges and (2) an adjustment to depreciation expense to reflect the adjustment of property and equipment to fair value.

(b) To restate interest expense to reflect the restructuring of the Company's debt.

(c) To eliminate deferred compensation and stock option expense.

(d) To restate amortization of reorganization value in excess of amounts allocable to identifiable assets for twelve months.

(e) To eliminate the reorganization items, which consist primarily of the adjustments to assets to reflect estimated fair value recorded in fresh-start accounting.

(f) To adjust income tax provision.

(g) To eliminate the gain on debt discharge.

(h) To eliminate preferred stock dividend requirements.

3. Summary of Significant Accounting Policies

Basis of Presentation

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For accounting purposes, the Company assumed that the Plan was consummated on July 31, 1992. The consolidated financial statements as of and for the two months ended September 30, 1992 are presented for the Company after the consummation of the Plan. As discussed above, these statements were prepared under the principles of fresh-start accounting and are not comparable to the statements of prior periods. Accordingly, a line has been used to separate the financial statements of the Company after the consummation of the Plan from those of the Company prior to the consummation of the Plan.

Property and Equipment. As a result of the adoption of fresh start accounting, property and equipment were adjusted to their estimated fair value as of July 31, 1992 and historical accumulated depreciation was eliminated. . . .

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Excess Reorganization Value. Excess Reorganization Value is being amortized on a straight-line basis over three years. Amortization expense for the two months ended September 30, 1992 was $12.5 million.

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Assets Restricted for the Settlement of Unpaid Claims. Included in assets restricted for the settlement of unpaid claims are marketable securities, which are carried at amortized cost, which approximates market value. . . .

MUNSINGWEAR INC., JANUARY 4, 1992

Statements of Operations
(*amounts in thousands, except per share data*)

	Reorganized Company	Predecessor Company	
	Two Months Ended January 4, 1992	Ten Months Ended October 29, 1991	Year Ended January 5, 1991
. . . .			
Income (loss) from continuing operations before reorganization items, income taxes, discontinued operations and extraordinary item	(120)	1,788	(12,631)
Reorganization items	—	(8,211)	(648)
	(120)	(6,423)	(13,279)
Provision for income taxes	(20)	(50)	(94)
Loss from continuing operations	(140)	(6,473)	(13,373)
Fresh Start Reporting adjustments	—	8,021	—
Discontinued operations:			
Gain (loss) from discontinued operations	—	—	304
Gain (loss) on disposal	—	1,927	(25,384)
	(140)	3,475	(38,453)
Extraordinary gain on debt forgiveness	—	51,239	—
Net income (loss)	$ (140)	$54,714	$(38,453)

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Notes to Financial Statements

1. Reorganization

On July 3, 1991, the Company filed a Petition with the United States Bankruptcy Court in Minneapolis, Minnesota, for relief under Chapter 11 of the U.S. Bankruptcy Code. Case Number BKY 4-91-4581. At the same time, the Company also filed a proposed Plan of Reorganization (the "Plan"), which was the result of negotiations between the Company and the Unofficial Committee of Unsecured Creditors, which was later appointed the Official Committee of Unsecured Creditors by the Court. On August 19, 1991, the Bankruptcy Court approved the Company's Disclosure Statement and authorized the solicitation of approval of the Plan. Following approval by creditors, the Bankruptcy Court confirmed the Plan on October 1, 1991. The Company emerged from bankruptcy on October 29, 1991, the effective date of the Plan. During the period from July 3, 1991 through October 29, 1991, the Company operated as debtor-in-possession.

Under the terms of the Plan, estimated allowed claims of $53,518,000 are being settled as follows:

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The Plan also provides for the issuance of 175,383 shares of New Common Stock to pre-reorganization shareholders in exchange for all 4,888,758 shares outstanding on the effective date. The Plan also provides for management to receive 143,500 shares of New Common Stock in the form of restricted stock grants and incentive options to purchase 143,499 shares of New Common Stock under the 1991 Stock Plan (see Note 6).

Reorganization items (non-bankruptcy and bankruptcy) included in the statements of operations consist of the following:

(in thousands)	Ten Months Ended October 29, 1991	Year Ended January 5, 1991
Professional fees	$1,444	$ 648
Adjustments to claims		
PBGC	4,652	—
Other	2,115	—
	$8,211	$ 648

2. Fresh Start Reporting

In accounting for the effects of the reorganization, the Company has implemented Statement of Position 90-7 (SOP 90-7), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued by the American Institute of Certified Public Accountants in November 1990. SOP 90-7 is applicable because pre-reorganization shareholders will receive less than 50% of the Company's New Common Stock and the reorganization value of the assets of the reorganized Company is less than the total of all post-petition liabilities and allowed claims.

After extensive negotiations between the Company and the Creditors' Committee, the Company's reorganization value was determined to be $15,000,000. The reorganization value was based on, among other things, discounted projected cash flows for the reorganized Company over a five-year period. The projected cash flows included assumptions as to anticipated sales and margins, new product introductions, marketing plans, operating expense levels, and capital expenditure programs. A discount rate of 16% was used, which reflects the uncertainty of the cash flows, the general inherent risk of the apparel industry, and general business conditions. In addition, the Company projected a terminal value of the business at the end of the five-year period based on appropriate discount factors and various assumptions as to the utilization of the Company's pre-confirmation net operating loss carryforward (NOL).

SOP 90-7 requires an allocation of the reorganization value in conformity with the procedures specified by Accounting Principles Board Opinion No. 16, "Business Combinations," for transactions reported on the basis of the purchase method. In applying SOP 90-7, the Company allocated $5,445,000 to trademarks in recognition of the value of trademarks, tradenames, and license agreements. Except as discussed in the following paragraph, no significant adjustments were made to the Company's other assets and liabilities, as their fair values approximated recorded amounts at the reorganization date.

As permitted by SOP 90-7, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes," and FASB Statement No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions," as of October 29, 1991, the reorganization date. As a result, the Company allocated $3,000,000 of the reorganization value to deferred income taxes, representing the expected benefit from the future realization of the surviving preconfirmation NOL of approximately $36,000,000 (see Note 8) and recorded a liability of $424,000 for postretirement medical benefits (see Note 12).

The net effect of all "Fresh Start Reporting" adjustments resulted in income of $8,021,000, which is reflected in the statement of operations for the ten months ended October 29, 1991 in accordance with SOP 90-7.

The effect of the Plan of Reorganization and the application of SOP 90-7 on the Company's October 29, 1991 preconfirmation balance sheet is as follows:

(amounts in thousands)	October 29, 1991 Preconfirmation Balance Sheet
Assets	
Current assets:	
Cash	$ 1,048
Receivables	5,695
Inventories	4,448
Prepaid expenses	518
Total current assets	11,709
Property, plant and equipment	1,559
Deferred taxes	—
Trademarks	—
Other	1,105
Other — discontinued operations	900
	$ 15,273
Liabilities and stockholders' equity (deficit)	
Current liabilities:	
Short-term debt	$ 472
Current maturities of long-term debt	145
Accounts payable	1,407
Accrued payroll and employee benefits	1,268
Other accrued expenses	1,793
Total current liabilities	5,085
Long-term debt	305
Deferred items	625
Liabilities subject to compromise	53,518
Stockholders' equity (deficit)	(44,260)
	$ 15,273

(*amounts in thousands*)	Confirmation of Plan Debt Discharge	Fresh Start
Assets		
Current assets:		
Cash	$ —	$ —
Receivables	—	—
Inventories	—	—
Prepaid expenses	—	—
Total current assets	—	—
Property, plant and equipment	—	—
Deferred taxes	—	3,000 (1)
Trademarks	—	5,445 (6)
Other	(1,009)	—
Other — discontinued operations	(900)(2)	—
	$(1,909)	$ 8,445
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Short-term debt	$ —	$ —
Current maturities of long-term debt	179 (3)	—
Accounts payable	—	—
Accrued payroll and employee benefits	—	24 (7)
Other accrued expenses	28 (4)	—
Total current liabilities	207	24
Long-term debt	163 (3)	—
Deferred items	—	400 (7)
Liabilities subject to compromise	(53,518)(5)	—
Stockholders' equity (deficit)	51,239	8,021
	$(1,909)	$ 8,445

(*amounts in thousands*)	Reorganized Balance Sheet
Assets	
Current assets:	
Cash	$ 1,048
Receivables	5,695
Inventories	4,448
Prepaid expenses	518
Total current assets	11,709
Property, plant and equipment	1,559
Deferred taxes	3,000
Trademarks	5,445
Other	96
Other — discontinued operations	—
	$21,809
Liabilities and stockholders' equity (deficit)	
Current liabilities:	
Short-term debt	$ 472
Current maturities of long-term debt	324

Note 2 — Fresh Start Reporting (continued)

(amounts in thousands)	Reorganized Balance Sheet
Accounts payable	1,407
Accrued payroll and employee benefits	1,292
Other accrued expenses	1,821
Total current liabilities	5,316
Long-term debt	468
Deferred items	1,025
Liabilities subject to compromise	—
Stockholders' equity (deficit)	15,000
	$21,809

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(1) Write-off of unamortized bond issuance costs.

(2) Disposal of Alabama and Louisiana idle manufacturing facilities.

(3) Notes issued to the PBGC.

(4) Cash to be paid on Class E claims.

(5) Discharge of debt.

(6) Fair value of trademarks.

(7) Adoption of FASB Statements 106 and 109.

3. Summary of Significant Accounting Policies

Principles of Consolidation. The financial statements include the accounts of Munsingwear, Inc. (the "Company") and its subsidiaries. . . .

. . . .

Property, Plant and Equipment. In accordance with "Fresh Start Reporting," at the reorganization date, recorded costs were adjusted to reflect fair value and accumulated depreciation was eliminated.

. . . .

Trademarks and Other Assets. Trademarks were recorded at their estimated fair value in connection with the Company's reorganization and are being amortized over 20 years.

. . . .

NBI, Inc.
Consolidated Balance Sheets
June 30, 1992, 1991, and 1990
(amounts in thousands, except share data)

	Reorganized Company	Predecessor Company	
	1992	1991	1990
. . . .			
Liabilities and Stockholders' Equity (Deficit)			
Liabilities not subject to compromise:			
Current liabilities:			
. . . .			
Total current liabilities	3,452	4,196	60,742
. . . .			
Total liabilities not subject to compromise	14,407	4,253	74,327
Liabilities subject to compromise (Note 11)	150	63,665	—

. . . .

NBI, Inc.
Consolidated Statements of Operations
(amounts in thousands, except per share data)

	Reorganized Company	Predecessor Company		
	Two Months Ended	Ten Months Ended	Years Ended June 30,	
	June 30, 1992	April 30, 1992	1991	1990
. . . .				
Loss from continuing operations before reorganization costs, income taxes, and extraordinary item	(1,329)	(4,222)	(3,934)	(36,162)
Reorganization costs (reduction) incurred subsequent to Chapter 11 proceedings (Note 19)	(3)	4	1,375	—

. . . .

NBI, Inc.
Notes to Consolidated Financial Statements
June 30, 1992, 1991, and 1990

2. Petition for Reorganization Under Chapter 11

On February 6, 1991, NBI, Inc. filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Colorado. On January 21, 1992, the Bankruptcy Court entered an order confirming the Company's Plan of Reorganization. NBI emerged from Chapter 11 bankruptcy on February 3, 1992, the effective date of the Plan.

Pursuant to the Plan, the holders of the 8¼% convertible subordinated debentures, 9% convertible notes, existing common stock and existing preferred stock received new common stock during the fourth fiscal quarter of 1992 as settlement of their allowed claims. The prepetition income tax liabilities were settled in accordance with a settlement agreement reached with the Internal Revenue Service and approved by the Bankruptcy Court. The remaining prepetition creditors received a combination of cash, notes payable, and new common stock as settlement of their allowed claims. Under the Plan, a total of 10,001,263 shares of new common stock were issued and the 9.5 million shares of common stock and 40,945 of Series A convertible preferred stock previously outstanding were retired. As a result of the Chapter 11 proceedings and the related Plan, a gain on the forgiveness of debt totaling $44,271,000 was recognized during the ten months ended April 30, 1992. There was no tax expense recorded on the gain due to the net operating loss carryforwards available at April 30, 1992.

In accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, the Company was required to adopt fresh-start accounting as of April 30, 1992, after all material conditions required by the Plan were satisfied. The Company was required to adopt fresh-start reporting because the holders of the existing voting shares immediately prior to filing and confirmation of the Plan received less than 50% of the voting shares of the emerging entity, and its reorganization value was less than the total of its post-petition liabilities and allowed claims. Under fresh-start accounting, all assets and liabilities are restated to reflect their reorganization value, which approximates fair value at the date of reorganization. Accordingly, all allowances for doubtful accounts, accumulated depreciation and amortization, and asset reserves were reduced to $0 at April 30, 1992. The liabilities of reorganized NBI consist of post-petition current liabilities, notes payable to the IRS and general unsecured notes payable. In accordance with fresh-start accounting, the gain on forgiveness of debt resulting from the bankruptcy proceedings was reflected on the predecessor Company's financial statement of operations for the ten months ended April 30, 1992. In addition, the retained deficit of the predecessor Company at April 30, 1992 totaling $54,268,000 was eliminated, and, at May 1, 1992, the reorganized Company's financial statements reflected no beginning retained earnings or deficit.

The reorganization value of Reorganized NBI was determined in consideration of several factors. Management believes the estimated fair value of the emerging entity before considering liabilities approximates the amount a willing buyer would pay for the assets of the entity immediately after the restructuring. The Company determined that the fair value of the assets at April 30, 1992 approximated carrying value and, therefore, recognized no reorganization value in excess of amounts allocable to identifiable assets.

Interest on the prepetition unsecured debt was not allowed during the proceedings; therefore, the Company discontinued accruing interest on these obligations as of February 7, 1991. Contractual interest on those obligations totaled $4,704,000 for the year ended June 30, 1991, and $2,852,000 for the ten months ended April 30, 1992, which is $1,859,000 and $2,649,000 in excess of reported interest expense for these periods, respectively. Due to the Company's emergence from bankruptcy, contractual interest equaled reported interest for the two months ended June 30, 1992.

11. Liabilities Subject to Compromise

As a result of the Chapter 11 proceedings, all unsecured and undersecured prepetition liabilities were reclassified to liabilities subject to compromise at June 30, 1991. Substantially all of these claims were settled in fiscal 1992 in accordance with the Plan of Reorganization. (See Note 2.) A reserve for the settlement of unresolved claims disputed by the Company is included in liabilities subject to compromise at June 30, 1992. The liabilities subject to compromise at June 30, 1992, and 1991 consisted of the following:

	1992	1991
	(amounts in thousands)	
Trade and other miscellaneous claims	$150	$ 1,114
8¼% convertible subordinated debentures	—	34,067
9% convertible notes	—	7,663
Accrued interest on prepetition debt	—	4,903
Income tax liabilities	—	14,000
Accrued branch consolidation expenses	—	278
Lease restructuring liability	—	495
Accrued settlements	—	333
Liabilities of discontinued operations	—	812
Total	$150	$63,665

19. Reorganization Costs Incurred Subsequent to Chapter 11 Proceedings

Net reorganization costs incurred subsequent to the Chapter 11 proceedings on February 6, 1991, totaled $4,000 for the ten months ended April 30, 1992, and reflected a net reduction of $3,000 for the two months ended June 30, 1992. These costs consisted primarily of professional fees and costs associated with the preparation and distribution of the Modified and Restated Disclosure Statement and Plan of Reorganization. However, they were significantly offset by favorable inventory reserve adjustments totaling $187,000, recorded in the first and second fiscal quarters, and interest income of $262,000 attributable to the Chapter 11 proceedings. In addition, a reduction in expenses of $135,000 was recorded in the first quarter of fiscal 1992 due to the dismissal of a prepetition claim.

Net reorganization costs incurred subsequent to the Chapter 11 proceedings totaled $1,375,000 in fiscal 1991 and consisted primarily of professional fees, write-down of deferred bond issue costs associated with the subordinated debentures, write-down of furniture and equipment to estimated net realizable value, and provisions for leases to be rejected during the Chapter 11 proceedings. These costs were reduced by favorable inventory reserve adjustments totaling $216,000 recorded in the fourth fiscal quarter and interest income of $127,000 attributable to the Chapter 11 proceedings. This interest income consists of interest earned on cash accumulated during the Chapter 11 proceedings due to the nonpayment of prepetition liabilities subject to compromise.

WHEELING PITTSBURGH CORPORATION, DECEMBER 31, 1990

Wheeling-Pittsburgh Corporation
Consolidated Statement of Income and Accumulated Earnings
(in thousands)

	Year Ended December 31,		
	1990	1989(*)	1988(*)
Income before reorganization items, taxes and extraordinary credits	90,182	152,295	183,400
Reorganization items:			
Allowed claims in excess of recorded liabilities	(390,356)	—	—
Professional fees	(24,710)	(10,650)	(10,200)
Interest earned on cash balances resulting from Chapter 11 proceedings	49,271	46,784	23,837
Gain on sale of securities	—	—	45,910
Adjust accounts to fair value	19,146	—	—
	(346,649)	36,134	59,547
Income (loss) before taxes and extraordinary items	(256,467)	188,429	242,947
Tax provision and charge in lieu of income tax	10,205	64,066	82,606
Investment tax credit refund	—	—	(14,026)
Loss before extraordinary items	(266,672)	124,363	174,371
Extraordinary gain on discharge of prepetition liabilities	215,665	—	—
Extraordinary tax credit	—	48,261	77,473
Net income (loss)	(51,007)	172,624	251,844
Accumulated earnings (deficit) at beginning of year, as restated	(120,367)	(292,991)	(544,835)
Eliminate deficit in accumulated earnings	171,374	—	—
Accumulated earnings at December 31	$ -0-	$(120,367)	$(292,991)

. . . .

Wheeling-Pittsburgh Corporation
Notes to Financial Statements

Note A — Reorganization

A Joint Plan of Reorganization was filed by the Corporation and the Official Committee of Unsecured Creditors on July 11, 1990. That Joint Plan of Reorganization was, by its terms, conditioned upon acceptance and ratification of a new collective bargaining agreement with the USWA. A new collective bargaining agreement was ratified on September 11, 1990; subsequently the Corporation filed the Plan on October 18, 1990. The Plan was confirmed on December 18, 1990 and substantially consummated on January 3, 1991.

The Plan created a holding company structure as follows: the Corporation changed its name to Wheeling-Pittsburgh Corporation ("WPC") and incorporated a new wholly owned subsidiary named

(*) Restated to account for prior years' actuarial gains and losses of other postretirement benefits. See Note D. Also, reorganization items have been reclassified for comparability.

Wheeling-Pittsburgh Steel Corporation ("WPSC") to which substantially all of the Corporation's operating assets and liabilities were transferred.

Chapter 11 claims filed against the Corporation and subsequently allowed in the bankruptcy proceedings totaled approximately $1.3 billion, which exceeded the amount of liabilities recorded by $390 million. The Plan discharged the claims through distribution of $587 million in cash, including escrow accounts, the issuance of $306 million of long-term debt, the issuance of 8,500,000 shares of New Common Stock to secured creditors, 5,690,000 shares of New Common Stock to unsecured creditors and 5,810,000 shares of New Common Stock to preconfirmation preferred and common stock equity holders. The value of the cash and securities distributed was $216 million less than the allowed claims; the resultant gain was recorded as an extraordinary gain.

The sum of the allowed claims plus post petition liabilities exceeded the value of preconfirmation assets. Also, the Corporation experienced a change in control as pre-organization equity holders received less than 30% of the new Common Stock issued pursuant to the Plan. AICPA SOP 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, requires that under these circumstances, a new reporting entity is created and assets and liabilities should be recorded at their fair values. This accounting treatment is referred to in these statements as "fresh start reporting."

"Fresh start reporting" equity value was determined with the assistance of independent advisors. The methodology employed involved estimation of enterprise value (i.e., the market value of the Corporation's debt and shareholders' equity), taking into account a discounted cash flow analysis and an analysis of comparable, publicly traded U.S. integrated steel companies. The discounted cash flow analysis was based on ten-year cash flow projections prepared by management. Cash flows were discounted at a debt-free cost of equity of 13.9%. Terminal value calculation was based on a growing perpetuity of cash flow, assuming a growth rate of 6%, reflecting 1% real growth and 5% inflation.

The ten-year cash flow projections were based on estimates and assumptions about circumstances and events that have not yet taken place. Such estimates and assumptions are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Corporation, including, but not limited to, those with respect to the future courses of the Corporation's business activity. Accordingly, there will usually be differences between projections and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The Corporation has adopted "fresh start reporting" in accordance with the SOP 90-7 in preparing its final balance sheet as of December 31, 1990. The balance sheet will become the opening balance sheet for WPC.

The distribution and "fresh start reporting" referred to above have been reflected as of December 31, 1990 in the accompanying financial statements. Since the December 31, 1990 Consolidated Balance Sheet has been prepared as if it is of a new reporting entity, a black line has been shown to separate it from prior-year information since it is not prepared on a comparable basis.

The effect of the Plan of Reorganization on the Corporation's balance sheet as of December 31, 1990, is as follows (*in thousands*):

	Adjustments to Record Preconfirmation Balance Sheet	Confirmation of Plan Debt Discharge
Assets:		
Current Assets:		
Cash and short-term investments	$ 630,215	$ (565,473)
Trade receivables — net	123,231	
Inventories	176,384	
Other current assets	45,716	
Total current assets	975,546	(565,473)

Note A — Reorganization (continued)

Investment in associated company	6,481	
Property, plant and equipment — net	566,971	
Other non-current assets	61,056	(7,038)
	$1,610,054	$(572,511)
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Trade payables	$ 92,591	
Payrolls and employee benefits	62,587	14,022
Taxes	44,637	
Other current liabilities	22,364	6,000
Long-term debt due in one year	116	6,464
Total current liabilities	222,295	26,486
Long term debt	1,981	299,993
Prepetition liabilities	896,878	(896,878)
Employee benefits	242,389	4,930
Other liabilities	615	8,000
Total liabilities	1,364,158	(557,469)
Preferred stock	99,577	(99,577)
Common stock	51,146	(50,946)
Additional paid-in capital	111,002	310,172
Accumulated earnings (deficit)	(15,829)	(174,691)
	$1,610,054	$(572,511)

	Adjustments to Record Fresh Start	Confirmation of Plan Wheeling-Pittsburgh Corporation's Reorganized Balance Sheet
Assets:		
Current Assets:		
Cash and short-term investments		$ 64,742
Trade receivables — net		123,231
Inventories	100,911	277,295
Other current assets	(5,296)	40,420
Total current assets	95,615	505,688
Investment in associated company	14,947	21,428
Property, plant and equipment — net	72,676	639,647
Other non-current assets	(2,400)	51,618
	$ 180,838	$1,218,381
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Trade payables		$ 92,591
Payrolls and employee benefits		76,609
Taxes		44,637
Other current liabilities		28,364
Long-term debt due in one year		6,580
Total current liabilities		248,781

Long term debt		301,974
Prepetition liabilities		—
Employee benefits	122,798	370,117
Other liabilities	38,894	47,509
Total liabilities	161,692	968,381
Preferred stock		—
Common stock		200
Additional paid-in capital	(171,374)	249,800
Accumulated earnings (deficit)	190,520	—
	$ 180,838	$1,218,381

The following entries record the provisions of the Plan and the adoption of fresh-start reporting (*$ in thousands*):

	Debit	Credit
(1) Increase prepetition liabilities to the amount of allowed claims.		
Reorganization charge	390,356	
Prepetition liabilities		390,356
	390,356	390,356
(2) Record distribution pursuant to the amended plan.		
Prepetition liabilities	1,287,234	
Other assets (escrows)	14,000	21,038
Cash		565,473
Payrolls and employee benefits		14,022
Other current liabilities		6,000
Long-term debt due in one year		6,464
Long-term debt		299,993
Other long-term liabilities		12,930
Common stock		142
Additional paid-in capital		159,507
Gain on debt discharge		215,665
	1,301,234	1,301,234
(3) Record exchange of stock for stock:		
Preferred stock	99,577	
Common stock (old)	51,146	
Additional paid-in capital	111,002	261,667
Common stock (new)		58
	261,725	261,725
(4) Record assets and liabilities at fair value under fresh-start reporting and eliminate deficit in accumulated earnings.		
Inventories	100,911	
Other current assets		5,296
Property, plant and equipment	72,676	
Investments	16,000	1,053
Other assets		2,400
Employee benefit liabilities		122,798
Other liabilities		38,894
Reorganization credit		19,146
Accumulated earnings		171,374
Additional paid-in capital	171,374	
	360,961	360,961

ASTREX INC., MARCH 31, 1992

Astrex, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 1992 and 1991

	1992	1991
. . . .		
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
. . . .		
Liabilities subject to settlement under reorganization case	801,156	—
Total current liabilities	4,772,524	15,575,023

. . . .

Astrex, Inc. and Subsidiaries
Consolidated Statements of Operations

	Years Ended March 31,		
	1992	1991	1990
. . . .			
Loss before reorganization costs, provision for income taxes and extraordinary items	(796,898)	(4,320,557)	(1,689,756)
Reorganization costs	(837,333)	—	—
Loss before provision for income taxes and extraordinary items	(1,634,231)	(4,320,557)	(1,689,756)

. . . .

Astrex, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 1992, 1991, and 1990

(1) Reorganization and Emergence From Chapter 11

Astrex, Inc. and subsidiaries (the Company) sell and distribute electronic parts and components. Most of the Company's sales consist of connectors that connect a wire or group of wires to another wire or group of wires, with the business concentrated in the Northeast and Mid-Atlantic states.

On March 31, 1992 (the POR effective date), Astrex, Inc. and three of its subsidiaries emerged from Chapter 11 of the United States Bankruptcy Code (Chapter 11) as the surviving corporations resulting from the Second Amended Joint Plan of Reorganization (the POR) of its predecessor companies, Astrex, Inc. and its wholly-owned subsidiaries (collectively the Astrex Companies). The POR, which was confirmed by the Bankruptcy Court on March 18, 1992, resulted in an approximately $12,500,000 (comprised of approximately $11,700,000 of indebtedness exchanged for common stock and approximately $800,000 of indebtedness exchanged for inventory) reduction in the total indebtedness of the Astrex Companies.

The POR provided for, among other things, the cancellation of certain indebtedness in exchange for inventory and/or new equity securities, the cancellation of pre-petition ownership interests in the Astrex Companies, the settlement of certain claims and mutual releases of certain claims of the Astrex Companies and other persons or entities (including certain affiliated persons or entities), and the assumption or rejection of executory contracts and unexpired leases to which an Astrex Company was a party. Inventory with a book value of $801,156 at March 31, 1992 has been segregated for settlement of certain claims.

In addition to the foregoing, in accordance with the POR, effective April 30, 1992, two wholly-owned subsidiaries were merged into the Company and the Certificate of Incorporation of the Company was amended whereby, the authorized number of shares of common stock was changed to 5,200,000 shares with a par value of $.01 per share, and each original outstanding share of common stock of the Company was cancelled, with those persons who were stockholders of the Company eligible to receive such numbers of shares as described in the POR. For reporting purposes, the cancellation of the common shares was recorded effective March 31, 1992.

As of March 31, 1992, in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" (SOP 90-7), the Company adopted "fresh-start reporting" and reflected the effects of such adoption in the financial statements for the year then ended.

Fresh-Start Reporting. The Company's management and representatives of the creditor's committee concluded that based upon the fact that the Company has historically incurred losses from operations and has projected minimal future operating profits (as documented in the POR), the reorganization value of the Company (the fair value of the Company before considering liabilities) was equivalent to the fair value of the Company's tangible assets at the POR effective date and that no other intrinsic value existed. As a result, as of the POR effective date, all assets and liabilities have been stated at their fair value (approximately $8,300,000).

The adjustments to reflect the consummation of the POR, including the gain on discharge of prepetition liabilities, have been reflected in the accompanying consolidated financial statements. Accordingly, a black line is shown to separate the March 31, 1992 consolidated balance sheet from the prior years' since it is not prepared on a comparable basis.

The effect of the POR on the Company's consolidated balance sheet as of March 31, 1992 is as follows:

	Pre-Confirmation March 31, 1992	Adjustments to Record Plan of Reorganization[a]
Assets		
Current assets:		
Cash	$ 2,148	—
Accounts receivable — net	1,643,900	—
Inventory	5,420,756	(801,156)
Inventory designated for settlement of liabilities	—	801,156
Prepaid expenses and other current assets	448,046	(291,728)
Current portion of notes		

(1) Reorganization and Emergence From Chapter 11 (continued)

	Pre-Confirmation March 31, 1992	Adjustments to Record Plan of Reorganization[a]
receivable	27,085	—
Total current assets	7,541,935	(291,728)
Plant and equipment — net	627,068	—
Notes receivables, less current portion	373,419	—
Total assets	$ 8,542,422	(291,728)
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Cash overdraft	48,544	—
Loans payable	2,056,407	—
Accounts payable	1,051,576	—
Accrued liabilities	814,841	—
Liabilities subject to settlement under reorganization case	12,565,292	(11,764,136)
Total liabilities	16,536,660	(11,764,136)
Shareholders' equity (deficiency)	(7,994,238)	11,472,408
Total liabilities and shareholders' equity (deficiency)	$ 8,542,422	(291,728)

	Fresh-Start Fair Value Adjustments[b]	Reorganized Balance Sheet March 31, 1992
Assets		
Current assets:		
Cash	—	2,148
Accounts receivable — net	—	1,643,900
Inventory	—	4,619,600
Inventory designated for settlement of liabilities	—	801,156
Prepaid expenses and other current assets	—	156,318
Current portion of notes receivable	—	27,085
Total current assets	—	7,250,207
Plant and equipment, net	90,665	717,733
Notes receivables, less current portion	—	373,419
Total assets	90,665	8,341,359

Liabilities and Shareholder Equity (Deficiency)		
Current liabilities:		
Cash overdraft	—	48,544
Loans payable	—	2,056,407
Accounts payable	—	1,051,576
Accrued liabilities	—	814,841
Liabilities subject to settlement under reorganization case	—	801,156
Total liabilities	—	4,772,524
Shareholders' equity (deficiency)	90,665	3,568,835
Total liabilities and shareholders' equity (deficiency)	90,665	8,341,359

(a) To record the settlement of liabilities subject to settlement under reorganization case and other transactions connected with the POR.

(b) To record the adjustment to state assets and liabilities at fair value.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company has implemented the recommended accounting for entities emerging from Chapter 11 reorganization as set forth in Statement of Position 90-7 (SOP 90-7). Accordingly, the March 31, 1992 consolidated balance sheet is not comparable to the March 31, 1991 consolidated balance sheet (note 1).

. . . .

(6) Loans Payable

. . . .

Accrued Liabilities. Accrued liabilities as of March 31, 1992 and 1991 consist of the following:

	1992	1991
. . . .		
Accrued bankruptcy expenses	382,542	—
. . . .		

(16) Reorganization Costs

The net expense incurred as a result of the Chapter 11 filings and subsequent reorganization efforts has been segregated from ordinary operations in the consolidated statement of operations for the year ended March 31, 1992. Reorganization costs are comprised of the following:

Adjustments to fair value	$ (90,665)
Restructuring costs	189,783
Professional fees and other expenses related to bankruptcy	738,215
	$837,333

Restructuring costs include costs and expenses from closing of facilities, consolidation of operations and certain expenses incurred in the general restructuring of business operations.

CHYRON CORPORATION, DECEMBER 31, 1991

Chyron Corporation
Consolidated Balance Sheets
December 31, 1991, June 30, 1991 and 1990
(in thousands except share amounts)

	December 31, 1991	June 30, 1991	June 30, 1990
. . . .			
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities:			
. . . .			
Priority and administrative claims payable	2,724	—	—
. . . .			
Total current liabilities	10,456	13,177	43,399
. . . .			
Total non-current liabilities	5,042	42	1,194
Liabilities subject to settlement under Chapter 11:			
Accounts payable and accrued expenses	—	10,486	—
Notes payable to banks	—	29,600	—
Total Chapter 11 liabilities	—	40,086	—
Total liabilities	15,498	53,305	44,593

. . . .

Chyron Corporation
Consolidated Statements of Operations
Six Months Ended December 31, 1991
and Years Ended June 30, 1991, 1990, and 1989
(in thousands)

	Six Months Ended December 31, 1991	Years Ended June 30, 1991	1990	1989
. . . .				
(Loss) before Chapter 11 expenses, income taxes and items shown below	(1,670)	(17,455)	(13,568)	(4,298)
Chapter 11 expenses	1,500	2,316	—	—
(Benefit) for income taxes	—	—	(709)	(2,185)
(Loss) before minority interest in subsidiaries' loss and items shown below	(3,170)	(19,771)	(12,859)	(2,113)
Minority interest in subsidiaries' loss	—	—	—	190
(Loss) before fresh start accounting adjustment, extraordinary item, and cumulative effect of a change in accounting principle	(3,170)	(19,771)	(12,859)	(1,923)
Fresh start accounting adjustment	(11,330)	—	—	—
(Loss) before extraordinary item and cumulative effect of a change in accounting principle	(14,500)	(19,771)	(12,859)	(1,923)

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Notes to Consolidated Financial Statements

Emergence from Chapter 11 and Plan of Reorganization

Plan of Reorganization. On December 27, 1991 (the "Effective Date"), the Company's First Amended Joint Plan of Reorganization (the "Plan") was confirmed by the United States Bankruptcy Court ("Bankruptcy Court") and the transactions contemplated by the Plan were consummated. Pursuant to the Plan, the Company increased the authorized number of shares of Common Stock from 25 million shares to 150 million shares, and authorized 1 million shares of Preferred Stock with the designations, relative rights, preferences and limitations of such shares to be fixed from time to time by the Board of Directors.

Under the terms of the Plan, the Company issued to Manufacturers Hanover Trust Company ("MHT") and European American Bank ("EAB") 100% of the Preferred Stock and newly-issued shares of Common Stock representing 81% of the vote and value of all the issued and outstanding Common Stock on a fully diluted basis. Such Common Stock was purchased from the banks by Pesa, Inc. ("Pesa") on the Effective Date for $10 million in cash, and the Preferred Stock was purchased from the banks by Pesa for $5 million in cash. Pesa is the wholly-owned Delaware subsidiary of the Spanish Company Pesa Electronica, S.A. ("Electronica"), which in turn is approximately 99% owned by the Spanish Company Amper, S.A. ("Amper"). Finally, on the Effective Date, Chyron repurchased (and retired) from Pesa the Preferred Stock for $5 million in exchange for a convertible subordinated note (the "Note"). The Note bears interest, payable annually in arrears at the prime rate, and matures on January 31, 1996. The Note is convertible into 25 million shares of newly-issued Chyron Common Stock (at a conversion price of 20 cents per share) beginning February 1, 1992. See Note to Consolidated Financial Statements entitled Convertible Subordinated Notes Payable.

The exchange as described above resulted in EAB receiving $9.25 million and MHT receiving $5.75 million in cash as full settlement of all prepetition claims, including outstanding principal, interest and costs, as well as existing litigation and other claims and potential claims between and among the Company, EAB and MHT that relate to prepetition indebtedness.

In addition, Electronica, in cooperation with the Company, arranged for the Company to receive post-confirmation bank financing of $6.0 million. Electronica has committed to ensure that the Company will have sufficient financing available to meet its cash flow needs for the year ending December 31, 1992.

Each currently issued and outstanding share of Common Stock continues to remain outstanding as one share of Common Stock of reorganized Chyron (representing 19% of the equity of Chyron as of the Effective Date). Shareholders of the Company other than Pesa received one warrant for each two shares of Common Stock held in January 1992 when the Company issued 5,795,555 Common Stock Purchase Warrants, which are convertible into common stock at the conversion price of $.20 per share through their expiration on January 31, 1996.

Assuming conversion of the note and exercise of the warrants, there would be 91.8 million shares of Common Stock outstanding, of which Pesa would hold 74.4 million shares.

All previously outstanding stock options, warrants or other rights to acquire shares of Common Stock were cancelled under the Plan.

Unsecured creditors holding allowed claims received their pro rata share of $2.5 million out of a cash fund that was established by the Company. All priority and administrative claims including professional fees are to be paid in full by the Company.

In connection with its acquisition by Pesa, the Company changed its fiscal year end to December 31.

The Company entered into a Management Agreement with Pesa, to provide business and technical services to the Company. Under the agreement, as amended, the Company is committed to pay Pesa, on a quarterly basis, a management fee equal to 3% of sales.

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Fresh Start Accounting. In connection with Chyron's emergence from Chapter 11 on December 27, 1991, the reorganization of Chyron has been accounted for using "Fresh Start" accounting in accordance with a recent AICPA Statement of Position, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." This basis of accounting requires that successor company financial statements be prepared on the basis that a new reporting entity is created, assets and liabilities should be recorded at their estimated fair values, and the Company's accumulated deficit be eliminated.

The revaluation of the Company's assets and liabilities as of December 27, 1991, which was based upon recent independent appraisals and other estimations by management, resulted in a reduction in net carrying values of assets and liabilities of $11,330,000, with the following components (*in thousands*):

Decrease in excess cost of investment over net assets acquired	$ (5,324)
Decrease in working capital	(3,226)
Decrease in software development	(2,639)
Decrease in equipment held for lease	(813)
Decrease in other assets	(292)
Increase in property, plant and equipment	964
	$(11,330)

The accumulated deficit of $20,918,000 at December 26, 1991, which included the effects of the fresh start adjustments, was reclassified to additional paid-in capital.

FORUM GROUP INC., MARCH 31, 1992

Forum Group, Inc. and Subsidiaries
(Predecessor Company)
Consolidated Statements of Operations
Years Ended March 31, 1992, 1991, and 1990
(in thousands, except per share amounts)

	1992	1991	1990
. . . .			
Other:			
. . . .			
Reorganization expenses	(9,013)	(546)	—
Restructuring expenses	—	(2,423)	—
Effect of fresh-start reporting	(62,261)	—	—
Reduction in carrying value of property	(12,771)	(32,300)	—
Loss before other partners' interest and extraordinary gain	(117,435)	(112,161)	(11,632)

. . . .

Forum Group, Inc. and Subsidiaries
(Successor Company)
Notes to Consolidated Balance Sheet

(1) Summary of Significant Accounting Policies

Basis of Presentation. On April 2, 1992, the reorganization plan of Forum Group, Inc. and eleven of its subsidiaries was confirmed by the U.S. Bankruptcy Court. The confirmed plan provides for secured and certain other creditors to receive current and/or deferred cash payments equal to their allowed claims, and for general unsecured and subordinated creditors to receive approximately 95% of the shares of common stock of the reorganized company. The plan was effective for financial reporting purposes as of March 31, 1992. In accordance with Statement of Position No. 90-7 ("SOP 90-7") of the American Institute of Certified Public Accountants, Forum Group was required to account for the reorganization using fresh-start reporting (see Note 2). Accordingly, all consolidated financial statements for any period prior to March 31, 1992, are referred to as "Predecessor Company" as they reflect the periods prior to the implementation of fresh-start reporting and are not comparable to the consolidated financial statements for periods after the implementation of fresh-start reporting.

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(2) Plan of Reorganization and Fresh-Start Reporting

The reorganization plan of Forum Group and eleven of its subsidiaries generally provides for the following settlement of their liabilities:

. . . .

In accordance with SOP 90-7, since the holders of the previously issued common stock are to receive less than 50% of the new common stock and the reorganization value was less than postpetition liabilities and allowed claims, Forum Group accounted for the reorganization using fresh-start reporting. Accordingly, all assets and liabilities were adjusted to reflect their reorganization value, which approximates estimated fair value at the effective date. The total effect on the consolidated statement of operations from applying fresh-start reporting was $62,261,000, and the accumulated deficit of $104,508,000 was eliminated.

Based on management's estimates of the fair value of Forum Group's consolidated assets, a reorganization value of $393,046,000 was established. The factors considered in determining the estimated fair value of assets are as follows:

- Property and equipment were valued using an income approach which converted the estimated operating cash flow during a six-year period and the estimated value at the end of six years into a value estimate. The estimated cash flow for each RC was based on management's 1993 operating budgets, annual revenue and expense increases ranging from 3.5% to 4.75%, management fees of 3% and annual capital expenditures of $100,000 per facility. Discount rates ranging from 10% to 15.5% were used to compute the value of the estimated cash flows, and capitalization rates ranging from 12.5% to 14.5% were used to compute the estimated value at the end of the period. Two RC's were valued at $36,723,000, the net proceeds from a sale which closed April 2, 1992 (see Note 5).

- Investments in Forum Retirement Partners, L.P. (the "Partnership"), and Greenville Retirement Community, L.P. ("Greenville") (see Note 3), were valued on the basis of Forum Group's percentage interest in the estimated net value of the RCs owned by those partnerships using similar valuation techniques and assumptions. The investment in National Enterprises, Inc. ("National"), was valued at $600,000 based on management's estimate of the net realizable value of that investment.

- All other assets were valued based on management's estimate of their net realizable value. Deferred costs and other assets with no continuing independent benefit were eliminated.

- All liabilities were adjusted to reflect the payment terms included in the reorganization plan. An additional liability of $1,380,000 was recorded to reflect management's estimate of future costs of providing management services for the Partnership's RCs (see Note 3).

- Cooperative memberships are reflected at the cash proceeds from the sale of memberships, and other partners' equity are reflected at the net amounts contributed, less an allocation of the losses of the partnerships.

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Mueller Industries, Inc.
Consolidated Statements of Operations
Years Ended December 28, 1991, December 31, 1990 and 1989
(in thousands, except share data)

	1991	1990 (*Predecessor-Note 1*)	1989
. . . .			
Income (loss) from continuing operations, before reorganization items, income taxes, discontinued operations, and extraordinary item	(49,735)	(9,342)	14,041
Reorganization items:			
Gain on litigation settlement (Note 15)	—	64,582	—
Loss on restructuring of assets (Note 13)	—	(21,123)	—
Chapter XI professional fees	—	(25,075)	(3,722)
Income tax (expense) benefit (Note 10)	5,994	(1,108)	(2,310)
Income (loss) from continuing operations	(43,741)	7,934	8,009
Fresh start reporting adjustments (Note 2)	—	56,894	—
Discontinued operations (Note 3):			
Loss from operations of discontinued steel operations	—	(91,635)	(60,337)
Gain on the disposal of steel operations	—	83,545	—
Extraordinary item — forgiveness of debt (Note 2)	—	392,416	—
Net income (loss)	$(43,741)	$449,154	$(52,328)

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Mueller Industries, Inc.
Notes to Consolidated Financial Statements

Note 1 — Reorganization and Summary of Significant Accounting Policies

Reorganization. Mueller Industries, Inc. (the Company) was formed for the purpose of merging with Sharon Steel Corporation, the Predecessor company, pursuant to the Third Amended and Restated Plan of Reorganization proposed by Quantum Overseas, N.V. and Castle Harlan, Inc., as modified by a modification motion dated November 19, 1990, filed with the United States

Bankruptcy Court for the Western District of Pennsylvania, Erie Division (the Bankruptcy Court) and confirmed by order of the Bankruptcy Court entered on November 21, 1990 (the Plan). Upon consummation of the Plan on December 28, 1990, Sharon Steel Corporation changed its jurisdiction of organization from Pennsylvania to Delaware by merging itself with and into its wholly-owned Delaware subsidiary, Mueller Industries, Inc., the surviving corporation in the merger. The Company is a successor to Sharon Steel Corporation for purposes of the Bankruptcy Code.

Fresh Start Reporting. At December 31, 1990, the Company adopted AICPA SOP 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code. The SOP requires that the accompanying 1990 financial statements be prepared on the basis that a new reporting entity is created and that assets and liabilities should be recorded at their fair values as of the reorganization date based on the specific elements of the Plan. This reporting is referred to herein as "fresh start" reporting.

Since the December 31, 1990 balance sheet and the subsequent consolidated financial statements have been prepared as if the Company is a new reporting entity, a black line has been presented between years which have not been prepared on a comparable basis.

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Note 2 — Chapter 11 Proceedings

On April 17, 1987, Sharon Steel Corporation, the predecessor company, filed a voluntary petition for relief under Chapter 11 of the Federal Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Western District of Pennsylvania, Erie Division, and was assigned Case No. 87-00207E. None of Sharon Steel Corporation's subsidiaries except Carpentertown Coal and Coke Company filed for relief under the Bankruptcy Code. Under Chapter XI, claims against Sharon Steel Corporation in existence prior to the filing of the petition for relief under the Bankruptcy Code (Prepetition) were stayed while business operations continued. From the filing date to January 11, 1988, Sharon Steel Corporation was authorized to operate its business and manage its properties as a debtor-in-possession pursuant to the Bankruptcy Code. On January 11, 1988 the Bankruptcy Court entered an order directing the appointment of a Trustee for Sharon Steel Corporation and on January 15, 1988 the court approved the selection by the United States Trustee's office of James W. Toren as the Trustee for Sharon Steel Corporation. The appointment of a trustee vests in the trustee all property of the estate and the power to operate Sharon Steel Corporation's business pursuant to the powers and limitation of the Bankruptcy Code. On November 7, 1988, Mr. Toren announced his intention to resign as Trustee. On January 26, 1989, Mr. Franklin E. Agnew III was appointed Trustee for Sharon Steel Corporation, replacing Mr. Toren.

On November 21, 1990, the Third Amended and Restated Plan of Reorganization, as modified by a modification order dated November 19, 1990, was confirmed by order of the Bankruptcy Court. The major elements of the Plan were (a) sale of designated steel assets and assumption of designated steel liabilities by an unaffiliated newly formed entity, Sharon, Inc. (refer to Note 3 for additional discussion of discontinued operations); (b) recapitalization of the Company, including a $50 million private placement (refer to Note 9 for additional discussion); (c) realignment of certain subsidiaries and assets; (d) distribution of cash for the satisfaction of certain allowed claims; and (e) distribution of seven million shares of common stock and cash in satisfaction of Allowed General Unsecured Creditors.

Total Chapter XI claims filed against the Company allowed in the bankruptcy proceedings and not assumed by Sharon, Inc. included approximately $584.4 million of Allowed General Unsecured Claims. The Plan discharged these claims through the issuance of $17.5 million in Delayed Distribution Notes, assumption of other debt and liabilities, and the issuance of 7 million shares of New Common Stock to unsecured creditors. The reorganization resulted in an extraordinary gain of $392.4 million.

The effect of the Plan of Reorganization on the Company's balance sheet as of December 31, 1990 is as follows:

(in thousands)	Adjustments to Recognize the Reorganization	
	Preorganization	Reorganization Adjustments
Current Assets		
Cash	$ 42,235	$ (1,507)
Accounts receivable	53,841	—
Inventories	69,995	—
Other current assets	6,083	2,546
Property, plant, and equipment — net	133,270	—
Other assets	30,184	—
Total assets	$335,608	$ 1,039
Current liabilities		
Current portion of long-term debt	$ 4,851	$ 2,908
Delayed Distribution Notes	—	25,000
Accounts payable	11,872	—
Other current liabilities	69,376	(14,360)
Prepetition liabilities	584,439	(584,439)
Long-term debt	35,395	18,608
Noncurrent deferred income taxes	(1,656)	—
Other liabilities	60,756	(19,209)
Total liabilities	765,033	(571,492)
Equity		
Common stock	822	(722)
Additional paid-in capital	136,168	(93,698)
Retained earnings (deficit)	(564,970)	665,506
Treasury stock	(1,445)	1,445
Total equity	(429,425)	572,531
Total liabilities and stockholders' equity	$335,608	$ 1,039

(in thousands)	Adjustments to Recognize the Reorganization	
	Fresh Start Adjustments	Reorganized Balance Sheet
Current Assets		
Cash	$ —	$ 40,728
Accounts receivable	—	53,841
Inventories	27,686	97,681
Other current assets	—	8,629
Property, plant, and equipment — net	53,833	187,103
Other assets	(2,563)	27,621
Total assets	$ 78,956	$415,603
Current liabilities		
Current portion of long-term debt	$ —	$ 7,759

(in thousands)	Adjustments to Recognize the Reorganization: Fresh Start Adjustments	Reorganized Balance Sheet
Delayed Distribution Notes	—	25,000
Accounts payable	—	11,872
Other current liabilities	13,475	68,491
Prepetition liabilities	—	—
Long-term debt	—	54,003
Noncurrent deferred income taxes	8,587	6,931
Other liabilities	—	41,547
Total liabilities	22,062	215,603
Equity		
Common stock	—	100
Additional paid-in capital	157,430	199,900
Retained earnings (deficit)	(100,536)	—
Treasury stock	—	—
Total equity	56,894	200,000
Total liabilities and stockholders' equity	$ 78,956	$415,603

The reorganization adjustments reflect the effect of the distribution of cash and securities to satisfy prepetition obligations in accordance with the Third Amended and Restated Plan of Reorganization. The fresh start adjustments record the allocation of reorganization value to the Company's assets and liabilities. The $200 million reorganization value used for the allocation was based on an independent appraisal of the Company.

The methodology employed involved estimation of the Company's enterprise value (i.e., the market value of shareholders' equity and the Company's debt). The estimate of enterprise value was based upon a comparison of the Company's normalized historical operating performance, including then management's estimates of fiscal 1991 performance, to that of comparable publicly traded companies and their respective enterprise values.

V

FINANCIAL REPORTING AFTER CONFIRMATION OF THE REORGANIZATION PLAN—NO FRESH-START REPORTING

As discussed in chapter 4, some companies are prohibited under SOP 90-7 from reflecting fresh-start reporting after confirmation of a reorganization plan. The following excerpts from the financial statements of six companies illustrate the accounting required under the SOP after confirmation of a plan without reflecting fresh-start reporting.

BALLY MANUFACTURING CORPORATION, DECEMBER 31, 1992

Bally Manufacturing Corporation
Notes to Consolidated Financial Statements
(all dollar amounts in thousands, except per share data)

Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of Bally Manufacturing Corporation ("Bally") and its wholly-owned subsidiaries (collectively, the "Company") except Bally's Grand, Inc. ("Bally's Grand"), which has operated as a debtor-in-possession under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") since November 1991. Bally's Grand currently owns and operates Bally's Casino Resort—Las Vegas ("Bally's Las Vegas"), and it owned and operated Bally's Casino Resort—Reno ("Bally's Reno") through July 31, 1992, the date on which Bally's Reno was sold. See "Investment in Bally's Grand." . . . .

Investment in Bally's Grand. On October 3, 1991 (the "Petition Date"), following Bally's Grand's failure to make scheduled interest payments on its public debt which created defaults under the indentures governing that debt, a group of holders of a series of Bally's Grand's public debt filed an involuntary bankruptcy petition against Bally's Grand. On September 15, 1992, the United

States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court") confirmed Bally's Grand's Fifth Amended Plan of Reorganization (the "Plan"). Upon the effectiveness of the Plan, which is now subject only to the receipt of necessary approvals from the Nevada gaming authorities and the execution and filing of documents relating to the Plan, the Company will relinquish all of its equity interest in Bally's Grand and the Company's net intercompany receivable from Bally's Grand at the Petition Date will be cancelled and extinguished. The Plan also provides that Bally will enter into a ten-year management agreement (the "Management Agreement") with reorganized Bally's Grand under which a subsidiary of Bally will provide management services to reorganized Bally's Grand and Bally will provide the use of the "Bally" name and certain computer software to reorganized Bally's Grand for payment of $3,000 annually. The Company has not provided any other type of guarantee or commitment to Bally's Grand or assumed any other obligation of Bally's Grand in connection with the Plan. Because the Company believes its loss is limited to its investment in and advances to Bally's Grand, which were written down to zero in 1990, and because of the expected loss of control under the terms of the Plan, the consolidated financial statements have been presented to reflect the Company's investment in and advances to and the results of operations of Bally's Grand on the equity method of accounting. The writedown to zero in 1990 caused the equity in net income (loss) of Bally's Grand to be reflected at zero in the Company's consolidated statement of operations for 1992 and 1991, and limited the equity in net loss of Bally's Grand to $186,621 in 1990.

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Summarized financial information of Bally's Grand is as follows:

	1992	1991
Financial position:		
Working capital	$ 39,030	$ 52,666
Property and equipment, net	219,094	284,494
Funds held in escrow	125,798	
Total assets	426,705	378,580
Pre-petition liabilities subject to compromise (principally amounts payable to noteholders)	489,732	499,496
Stockholders' deficit	139,972	168,991

	1992	1991	1990
Results of operations:			
Revenues	$320,245	$361,438	$ 367,473
Operating income (loss)	45,030	45,633	(289,995)
Net income (loss)	29,019	(3,850)	(333,971)

Pursuant to the Bankruptcy Code and the rulings of the Bankruptcy Court, Bally's Grand's outstanding public debt obligations ceased to accrue interest as of the Petition Date and, accordingly, the results of operations of Bally's Grand subsequent to the Petition Date exclude interest expense with respect to these debt obligations. Contractual interest expense not included in results of operations for 1992 and 1991 was $59,289 and $13,915, respectively. Effective October 1, 1992, Bally's Grand began accruing a charge in lieu of interest on Bally's Grand's new

12% First Mortgage Notes due 2001 that will be issued in connection with the Plan. The charge in lieu of interest included in results of operations for 1992 was $8,325. Results of operations of Bally's Grand include the results of Bally's Reno through July 31, 1992, the date Bally's Reno was sold, which sale resulted in a pre-tax gain of $15,538. Revenues and operating income (loss) of Bally's Reno included in the results of operations of Bally's Grand were $72,412 and $4,849 in 1992, $127,989 and $14,923 in 1991, and $132,271 and $(136,715) in 1990. Operating loss of Bally's Grand for 1990 includes a write-off totalling $71,232 of intangible assets and a valuation adjustment totalling $246,000 to fixed assets.

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HADSON CORPORATION, DECEMBER 31, 1992

Hadson Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1990, 1991, and 1992

(2) Restructure of Debt, Equity Capitalization and Settlements

In 1992 the Company completed a restructuring of its debt and equity capitalization and concurrently settled certain claims and obligations (the "Restructuring"). The purpose of the Restructuring was to reduce the Company's debt service requirements, represented primarily by (1) the interest payments and mandatory principal payments on its 11.2% Senior Notes and 12.2% Senior Subordinated Notes (collectively "Senior Debt") held by the Prudential Insurance Company of America and certain of its affiliates ("Prudential") and (2) the interest payments and required sinking fund payments on its 7¾% Convertible Subordinated Debentures ("Debentures").

The Company effected the Restructuring via a process known as "prepackaged bankruptcy." The Company successfully solicited votes for its Plan of Reorganization (the "Plan") prior to the filing of a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the Western District of Oklahoma on October 15, 1992. The Plan was confirmed by the bankruptcy court on November 30, 1992 and became effective on December 16, 1992. None of the Company's subsidiaries were included in the Chapter 11 case.

The key elements of the Restructuring are as follows:

- In exchange for all principal and accrued and unpaid interest on the Senior Debt ($99.8 million), and any yield-maintenance premiums which may have been due, Prudential received the following:

  (a) $56.4 million aggregate principal amount of Senior Secured Notes Due 2000 ("Senior Secured Notes") bearing interest at a fixed rate of 6.2% per annum. See Note 6.

  (b) 49,500 shares of the Company's 7% Senior Cumulative Preferred Stock, Series A, (the "Senior Preferred Stock"), with an aggregate liquidation preference of $49.5 million. See Note 7.

  (c) 72,704,000 shares of the Company's Class B Common Stock (the "Class B Common Stock"). See Note 7.

  (d) 11,341,000 shares of the Company's Class C Common Stock (the "Class C Common Stock"). See Note 7.

(e) 300,000 shares of the Company's Common Stock.

(f) Cash payments in an aggregate amount of $900,000 payable in three installments of $250,000 on each of December 31, 1992, March 31, 1993 and June 30, 1993, with a final installment of $150,000 payable on December 31, 1993.

- In exchange for $30 million principal amount of the Debentures plus accrued and unpaid interest of $2.1 million, the holders of the Debentures received 3,600,000 shares of the Company's 8% Junior Cumulative Convertible Preferred Stock, Series B (the "Junior Preferred Stock"), with an aggregate junior liquidation preference of $18 million. See Note 7.

- All Rights issued pursuant to the Stockholder Rights Agreement in July 1988 and held by the holders of Common Stock were cancelled. Each outstanding share of Common Stock continues to constitute one share of Common Stock. The par value of the Common Stock was changed from $.10 per share to $.01 per share.

- All options and warrants outstanding under the Company's stock option and warrant plans were cancelled and the plans terminated. The Company adopted a new stock option plan. See Note 10.

- Warrants held by Prudential to purchase 4,000,000 shares of the Company's Common Stock were cancelled.

- Unsecured trade claims were paid in full in cash, unless otherwise agreed as discussed below.

- Certain long-term lease commitments relating to leased facilities which were retained by the Company after the sale of the Defense Systems business in 1990 were settled for a one-time cash payment of i) $200,000, ii) 285,436 shares of Junior Preferred Stock and iii) 12 monthly installments of $50,000 beginning in December 1992.

- In connection with the retirement of the Company's Chairman of the Board and former Chief Executive Officer, the Company agreed to pay the following in settlement of substantially all claims arising from the related employment agreements: i) $14,187 per month for 12 months beginning in December 1992, ii) $5,854 per month for 48 months beginning in December 1993, and iii) $100,000 annually for 14 years beginning in December 1993.

The long-term portion of the liability under this settlement agreement is reflected in the accompanying Balance Sheet as of December 31, 1992 as other long-term liabilities.

- In settlement of various claims related to Dawn Enterprises ("Dawn") the Company issued a total of 139,643 shares of Junior Preferred Stock. Dawn is a North Dakota limited partnership formed by a subsidiary of the Company to own and operate an ethanol refinery located in North Dakota. Dawn is currently under the supervision of a trustee in a chapter 7 bankruptcy proceeding.

- The United States Army filed a claim against the Company regarding litigation between the Army and a subsidiary of the Company. See Note 12. This claim was settled by the parties agreeing that the merits of the Army's claim would be determined in conjunction with the on-going litigation. The parties further agreed that the liability of the Company, if any, in this matter will be limited to $750,000 and that any such liability will be payable in monthly installments over a ten-year period beginning the later of the final adjudication of such liability and December 16, 1995.

The aggregate net impact of the above described transactions is reflected in the Consolidated Statement of Operations as net gain on Restructuring and settlements.

During 1991, the Company completed its disposal of Defense Systems and disposed of substantially all of Power Systems. Defense Systems and Power Systems are treated as discontinued operations in the accompanying financial statements.

SPROUSE-REITZ STORES INC., JANUARY 31, 1993

Sprouse-Reitz Stores Inc.
Balance Sheets
January 26, 1993, and January 28, 1992

	1993	1992
. . . .		
Total current liabilities	21,077,766	10,986,896
Liabilities subject to compromise (Note 1)	—	48,275,300

. . . .

Sprouse-Reitz Stores Inc.
Statements of Operations
52 Weeks Ended January 26, 1993, January 28, 1992, and January 29, 1991

	Fiscal Years		
	1992	1991	1990
. . . .			
Net costs related to Chapter 11 proceeding (Note 1)	173,512	464,005	—
	160,842,347	217,060,734	225,877,892
Operating loss	(509,103)	(32,237,782)	(1,987,881)

. . . .

Sprouse-Reitz Stores Inc.
Notes to Financial Statements
Fiscal Years 1992, 1991, and 1990

Note 1: Summary of Significant Accounting Policies

Business and Plan of Reorganization — Sprouse-Reitz Stores Inc. (the "Company") operates as a domestic chain of general merchandise retail stores and crafts retail stores. As a result of increasing operating losses, the Company implemented a plan of restructuring in the second quarter of 1991, and, in addition, on November 27, 1991 filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Company's plan of reorganization filed with the Bankruptcy Court was approved effective July 1, 1992. Under Chapter 11, certain claims against the Company in existence prior to the filing were stayed while the Company continued business operations as a debtor-in-posession. These claims, which totaled $48,275,300, are reflected in the fiscal 1991 balance sheet as "Liabilities subject to compromise," as required under Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to terms of the plan of reorganization, the Company paid cash and issued debentures in satisfaction of these obligations upon emergence from bankruptcy proceedings in fiscal 1992.

As a result of the restructuring, the Company incurred a pre-tax restructuring charge of approximately $26 million in fiscal 1991. In fiscal 1992, while continuing to implement the plan of reorganization, the Company sustained a $3.6 million loss, which included a credit of $2.4 million to adjust the estimated fiscal 1991 restructuring charges to actual.

As part of the restructuring, the Company has aggressively replaced management personnel and closed many stores which historically operated at a loss. Additionally, the Company is (1) actively changing its merchandising mix to provide more relevant goods; (2) changing store layouts to reflect merchandise changes and to emphasize product demand of local trade areas; (3) enhancing management reporting to provide improved controls over purchasing, inventory and gross margin; (4) expanding the new logistics department functions and the capabilities of the recently opened distribution center to reduce shipping and handling costs, as well as to increase inventory turns; (5) continuing to focus on inventory shrinkage controls to augment the effectiveness of recently installed electronic article surveillance equipment; and (6) pursuing alternative financing arrangements to help meet its seasonal working capital requirements.

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SUNSHINE MINING COMPANY, DECEMBER 31, 1992

Sunshine Mining Company
Consolidated Statements of Operations
For the Years Ended December 31, 1992, 1991, and 1990
(in thousands, except per share amounts)

	1992	1991	1990
. . . .			
Loss from continuing operations before reorganization costs	(39,761)	(34,967)	(71,793)
Provision for reorganization costs (Note 2)	500	4,950	—

. . . .

Sunshine Mining Company
Notes to Consolidated Financial Statements
December 31, 1992

1. Summary of Significant Accounting Policies

Principles of Consolidation and Statement Presentation. Sunshine Mining Company ("Sunshine" or "the Company") is a holding company whose principal subsidiary is Sunshine Precious Metals, Inc. ("Sunshine Precious Metals"). . . .

Sunshine Precious Metals mines, refines and markets silver and certain by-product metals to commercial customers. On March 9, 1992, Sunshine Precious Metals filed a proceeding under Chapter 11 of Title 11 of the U.S. Bankruptcy Code. The plan, as amended, was consummated on December 2, 1992. See Note 2.

. . . .

2. Financial Restructuring and Bankruptcy Plan of Sunshine Precious Metals

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On March 9, 1992, Sunshine Precious Metals filed a prepackaged bankruptcy plan of reorganization (the "Plan") in the U.S. Bankruptcy Court for the District of Idaho. The Plan, as amended, was consummated on December 2, 1992. Pursuant to the amended Plan, holders of the Old Silver Indexed Bonds received (i) $800 principal amount of a new issue of silver indexed bonds of Sunshine Precious Metals bearing interest at an annual rate of 8% due December 1, 2006 (the "8% Silver Indexed Bonds") and (ii) shares of common stock having a value of $200 as determined by the Plan for each outstanding $1,000 principal amount of Old Silver Indexed Bonds and (iii) additional shares of common stock in satisfaction of accrued and unpaid interest. As a result, an aggregate of approximately 28.9 million shares of common stock were issued upon consummation of the Plan.

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Under the Plan, the Company has committed to fund up to $5 million of the operating deficits of Sunshine Precious Metals through December 31, 1993. The Company has also guaranteed to provide shares of the Company's common stock to pay interest on the 8% Silver Indexed Bonds until December 31, 1993 and has established a special deposit of $1 million to fund the operating deficits of Sunshine Precious Metals, in certain circumstances.

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For the year ended December 31, 1991, the Company recorded a $5.0 million charge representing the estimated costs associated with the reorganization and the write-off of debt issuance costs related to the Old Silver Indexed Bonds. During 1992, the Company recorded an additional charge of $.5 million to fully accrue the total costs associated with the reorganization.

Having completed its debt restructuring and downsizing efforts in 1992, management believes the Company's existing sources of liquidity (consisting principally of unrestricted cash and silver bullion held for investment) provide the Company with sufficient liquidity to meet its ongoing cash requirements beyond 1993. However, without a significant improvement in operating results, the Company's financial condition will continue to deteriorate, and within two to three years the Company may be in a critical liquidity situation.

7. Accrued Expenses

Accrued expenses at December 31 consist of the following (*in thousands*):

	1992	1991
. . . .		
Accrued corporate reorganization costs	802	893

. . . .

SYNTECH INTERNATIONAL INC., DECEMBER 31, 1992

Syntech International, Inc. and Subsidiary
Consolidated Statements of Operations

	Year Ended December 31, 1992	Three Months Ended December 31, 1991	Year Ended September 30, 1990
. . . .			
Earnings (loss) before extraordinary item	147,000	(303,000)	(4,565,000)
Extraordinary item — gain on reorganization (Notes D, E, and H)	255,000	—	1,373,000
Net Earnings (Loss)	$402,000	$(303,000)	$(3,192,000)

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Syntech International, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note D — Proceedings Under Bankruptcy and Reorganization

On July 11, 1990, Syntech International, Inc. (The Company) filed a voluntary petition for relief under Chapter 11 of the United States Code (the Code). Under Chapter 11, the Company continued to conduct its business under the supervision of the court until December 30, 1991, when the court confirmed the Company's plan of reorganization (the Plan) and the Company emerged as a restructured debtor. The significant provisions of the Plan were as follows:

All capital lease obligations were to be repaid under their original terms. In 1992 the capital lease obligations were paid in full and the related capitalized assets were returned to the lessor.

Unsecured claims of approximately $2,905,000 were compromised. The Company was required to pay 20% of such claims (with exception of $1,900,000 due to TPS Partners, Ltd.) within six months after effective date of confirmation. The remaining amount of the unsecured claims were to be paid, without interest, in twelve equal quarterly installments commencing 28 months after the Plan's confirmation date. The holders of these claims also have the option to convert such amounts to shares of the Company's common stock at the end of two years from the Plan's confirmation date at the rate of 75% of the market value of the Company's common stock at that date. These claims have been discounted using a discount rate of 10% and recorded as long-term compromised liabilities. The resulting discount of $807,000 was recorded and included in the 1991 extraordinary item. In 1992, the Company paid or settled on approximately $23,000 of these claims and extended the deadline for payment on the remaining balances to January 1993. The Company expects to make the required 20% payment in March 1993.

In June 1992, the Company successfully petitioned the bankruptcy court to dismiss a claim in the amount of $255,000 by the Ohio State Treasurer. The 1992 extraordinary item is the result of this settlement.

During 1992, shares of the Company's old common stock were canceled and exchanged for shares of the Company's new common stock at a ratio of two shares of new common stock for every three shares of old common stock.

Also, during 1992, shares of the Company's preferred stock were canceled and exchanged for shares of the Company's new common stock at a ratio of five shares of new common stock for one share of preferred stock. All preferred dividends in arrears and the liquidation preference were canceled.

Note E — Expired Lottery Agreements

The Company had a contract with the Ohio Lottery Commission (OLC) to operate, maintain and service a transaction processing system installed by the Company. The contract expired in June 1991. During 1991, the OLC filed a claim against the Company with the bankruptcy court seeking approximately $2,600,000 for contract noncompliance. This claim was settled in the bankruptcy court in June 1992. The settlement resulted in the Company forgiving $392,000 of receivables from the OLC in exchange for the OLC dismissing its claim against the Company.

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UNITED MERCHANTS AND MANUFACTURERS INC., JUNE 30, 1992

United Merchants and Manufacturers, Inc. and Subsidiaries
Consolidated Statement of Operations

	(*000 omitted*) Year Ended June 30,		
	1992	1991	1990
. . . .			
Reorganization expenses			1,940
. . . .			
Operating Loss	$(23,023)	$(33,444)	$ (66,302)
. . . .			
Reorganization items:			
Adjust carrying value of debentures to principal amount (Note B)		(6,858)	
Professional fees and other		(2,777)	
. . . .			

Consolidated Statement of Operations (continued)

	(000 omitted) Year Ended June 30,		
	1992	1991	1990
Loss before Extraordinary Items	$(32,996)	$(56,901)	$(137,069)
Extraordinary Item — Gain from settlement of liabilities upon reorganization (Note B)	159,319		

. . . .

United Merchants and Manufacturers, Inc. and Subsidiaries
Consolidated Balance Sheet

	(000 omitted) June 30,	
	1992	1991
. . . .		
Liabilities and Stockholders' Equity (Deficit)		
. . . .		
Total Current Liabilities	$118,171	$ 93,518
Liabilities subject to compromise		204,279

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United Merchants and Manufacturers, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note B — Reorganization Under Chapter 11

On November 2, 1990, the Company and two of its subsidiaries (the "Debtors") filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The filing was triggered by the Company's inability to repay the principal amount of $11.6 million of 4% Convertible Subordinated Debentures that matured November 1, 1990.

Pursuant to the Bankruptcy Code, the Debtors continued to operate their businesses as debtor-in-possession while their reorganization case was pending.

Under Chapter 11, the presentation and collection of certain prepetition claims against the Debtors were stayed. These claims are reflected in the June 30, 1991 balance sheet as "Liabilities Subject to Compromise."

On May 9, 1991, the Debtors filed a Reorganization Plan (the "Plan") and related Disclosure Statement with the United States Bankruptcy Court for the District of Delaware. On August 15, 1991, the Court entered an order confirming the Company's Plan, which Plan became effective on August 26, 1991 (the "Effective Date").

In summary, the Plan provided for (1) continuation of the Company's financing arrangement with its factor, including the factor's lien on substantially all of the Debtors' assets, (2) continuation of all other secured claims, except for those described in (3) and (4) below, under their current terms and conditions, (3) conversion of one-half of the 3½% Senior Subordinated Secured Debentures due 2009, plus related interest thereon, into shares totaling (a) 24.5% of a new common stock and (b) 50% of a new preferred stock, which became outstanding on the Effective Date, (4) replacement of the balance of the 3½% Senior Subordinated Secured Debentures due 2009 (and payment in cash of an amount equal to interest from January 1, 1991 through June 30, 1991) with similar 3½% debentures having amended terms, which amendments primarily eliminate the mandatory prepayments prior to maturity, (5) partial payment in cash to holders of general unsecured claims of $500 or less (and to any holder of a general unsecured claim in excess of $500 if the holder elected to reduce the claim to $500), (6) conversion of the balance of general unsecured claims outstanding as of November 2, 1990 into shares totaling (a) 24.5% of the new common stock and (b) 50% of the new preferred stock, and (7) conversion of the Common Stock outstanding immediately prior to the Effective Date into 51% of the new common stock.

The Plan provides for the issuance of 450,000 shares of new Preferred Stock and 8,744,000 additional shares of Common Stock (increasing the total number of shares of Common Stock to 17,845,000) of the Company. Only 326,000 shares of the new Preferred Stock and 6,483,000 shares of the additional Common Stock had been issued as of September 22, 1992 as a result of the effectiveness of the partial stay described below. For purposes of the Company's financial statements, the total number of shares to be issued in the reorganization are reflected as outstanding.

Although the Plan became effective on August 26, 1991 and the Company commenced implementation of the Plan on that date, on September 9, 1991, after the bankruptcy court refused the request of the ILGWU National Retirement Fund (the "Fund") to delay implementation of the Plan, the United States District Court for the District of Delaware entered a partial stay of the confirmation order based on an appeal by the Fund. Under the partial stay, the Company is required to suspend further distributions of preferred and common stock to certain of its pre-bankruptcy unsecured creditors. Prior to the stay, the Company had already issued approximately 60% of the total stock to be issued to such unsecured creditors whose claims were not in dispute. Also, the Company has issued substantially all of the stock to be issued to all other creditors. The Company is continuing to distribute cash and stock under the Plan to creditors not affected by the stay.

. . . .

Liabilities subject to compromise were stated at the amounts of the expected claims and not at the amounts for which the claims were settled. At June 30, 1991 such liabilities consisted of the following:

	(000 omitted)
Trade accounts payable	$ 5,734
Accrued expenses:	
Accrued interest	$ 3,176
Other	5,913
	$ 9,089

	(000 omitted)
Long-Term debt:	
$3\frac{1}{2}$% Senior Subordinated Secured	
Debentures due 2009	$138,284
$13\frac{3}{4}$% Senior Subordinated	
Debentures due December 15, 2000	22,790
15% Subordinated Debentures due 2004	16,776
4% Convertible Subordinated	
Debentures due November 1, 1990	11,606
	$189,456
	$204,279

The long-term debt shown in liabilities subject to compromise has been adjusted to principal amount by the write-off of related debt discount of $6,858,000, as of the date of reclassification to liabilities subject to compromise, to recognize the amount of the claims of the holders. The Company discontinued accruing interest on certain debt obligations as of the date they were determined to be subject to compromise. Contractual interest not accrued and not reflected in the statement of operations with respect to those obligations during the period from November 2, 1990 through June 30, 1991 amounted to $6,462,000, and during the period July 1, 1991 through the Plan's effective date, August 26, 1991, amounted to $1,704,000.

The statement of cash flows for the year ended June 30, 1991 reflects changes in the above captions before the reclassification of these amounts to liabilities subject to compromise.

The reorganization resulted in an extraordinary gain of $159.3 million from retirement of liabilities in excess of value issued, which gain was recognized in the three months ended September 30, 1991. Such gain is based on values of $1 a share for the common stock issued, $35 a share for the preferred stock issued and $278 (which results from discounting the debentures to yield $15\frac{1}{2}$% to maturity) for each $1,000 principal amount of the replacement $3\frac{1}{2}$% debentures. The entry to record the reorganization was as follows:

	(000 omitted) Debit	Credit
Liabilities subject to compromise	$204,279	
Accrued expenses		$ 1,209
Long-Term Debt:		
$3\frac{1}{2}$% Senior Subordinated Secured Debentures due 2009 (net of discount to present value of $49,885,000)		19,257
Preferred Stock (450,000 shares at $1 par value)		450
Common Stock (8,744,000 shares at $1 par value)		8,744
Capital in excess of par value		15,300
Extraordinary item — Gain from settlement of liabilities upon reorganization		159,319

FINANCIAL REPORT SURVEYS*

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A survey of the application of FASB Statement No. 5 as it applies to accounting for costs to comply with governmental regulations to protect the environment

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A survey of the application of AICPA SOP 90-7

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